OFFICE OF THE

Auditor General of British Columbia

2006/2007 Annual Report of the Auditor General of British Columbia

Serving the Legislative Assembly and the People of British Columbia

June 2007

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Canadian Cataloguing in Publication Data

British Columbia. Office of the Auditor General.

Annual report – 1994 –

Annual.

Subtitle varies.

Continues: British Columbia. Office of the Auditor General. Annual report to the Legislative Assembly of British Columbia.

Report year ends Mar. 31.

ISSN 1208-7920 = Annual report – British Columbia

Office of the Auditor General

1. Finance, Public - British Columbia - Auditing - Periodicals. 2. British Columbia. Office of the Auditor General - Periodicals. I. Title.

HJ13.B74 352.43'09711 C97-890000-6

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2007-04816/

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The Honourable Bill Barisoff
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
V8V 1X4

Dear Sir:

I have the honour to transmit the 2006/2007 Annual Report of the Auditor General of British Columbia to the Legislative Assembly, to be laid before the Assembly in accordance with the provisions of section 22 of the Auditor General Act.
This report is also available on our website: www.bcauditor.com.

Errol Price, CA
Acting Auditor General

Victoria, British Columbia
June 2007

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

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Message from the ACTING AUDITOR GENERAL

I am pleased to present the Office's 2006/07 Annual Report to the Legislative Assembly. The year was one of new leadership, significant challenges and considerable success. These are discussed in greater detail throughout the report. This report also shows that we still need to build on our successes.

As 2006 began, the former Auditor General, Wayne Strelioff, was still in Office. He completed his term on May 2, 2006. As the Deputy Auditor General, I oversaw the work of the Office until the appointment on June 7, 2006 of Arn van Iersel as Acting Auditor General. In February, 2007, Mr. van Iersel announced that he would step down on June 1, 2007.

In May 2007, the Legislative Assembly appointed Mr. John Doyle as the next Auditor General. Mr. Doyle will not take office until late fall, so in early June I was appointed Acting Auditor General for the interim.

Under the direction of Mr. van Iersel, we undertook a renewal process; re-examining our vision, mission, goals and values. This report describes that renewed direction. We had many successes during the year. However, I also believe that the uncertainties regarding the permanent leadership of the Office did impact staff morale.

Highlights of our successes include the issuance of 12 performance and accountability audit reports – one of the most productive years in the Office's 30 year history – dealing with important topics such as: *The 2010 Olympic and Paralympic Winter Games: A Review of the Estimates Related to the Province's Commitments; Audit of Treaty Negotiations in British Columbia: An Assessment of the Effectiveness of British Columbia's Management and Administrative Processes; Changing Course – A New Direction for British Columbia's Ferry System; and Government's Post-secondary Expansion – 25,000 Seats by 2010.* Our most important performance measure – the extent to which legislators who serve on the Legislative Assembly's Select Standing Committees on Public Accounts and Finance and Government Services believe the work of the Office provides value to the public – shows that 100% believe so. This support was further confirmed when in responding to our new five-year plan, which outlined our new vision and a detailed work plan, the

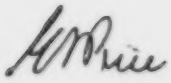
Message from the Acting Auditor General

Finance and Government Services Committee recommended a 21% increase in the Office's funding.

While we have met with success in some areas, the year has not been without its challenges. These include our continuing difficulty in recruiting and retaining the necessary staff to conduct our work as a result of the competitive market for accounting professionals. As well, we need to ensure that we continue to meet the new and ever evolving auditing and accounting standards.

We look forward to the arrival of Mr. Doyle as the Auditor General and the greater stability in leadership that he will bring to the Office as we continue to serve the Legislative Assembly and the people of British Columbia. His vision and direction will be reflected in the business and financial plan we will develop this fall. His six-year term in office will allow him, supported by legislators, to bring that vision to fruition.

In closing, I want to pay tribute to the Office's staff. I have had the privilege to work with many of them for several years. Their unfailing pride in, and commitment to, the work of the Office, and their dedication to making the British Columbia public sector the best it can be, is amazing. This continued support for our Office remains evident even with the leadership uncertainties of the past year.



Errol S. Price, CA
Acting Auditor General

Victoria, British Columbia
June 2007

Accountability for the Annual Report

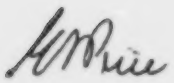
The 2006/07 Annual Report of the Auditor General of British Columbia was prepared under my direction. I am accountable for how the performance of the Office has been presented, including the selection of performance measures and the approach to reporting on our performance.

The report contains information that reflects the actual performance of the Office of the Auditor General for the 12 months ended March 31, 2007, in relation to the revised strategic direction outlined in our current 2007/08 – 2009/10 Service Plan. Ordinarily, we would have reported against the service plan prepared for the 2006/07 year, but with the strategic changes the Office made during the year, I believe it is more appropriate to report against the revised plan. Our new direction helps us by strengthening the Office's strategic alignment and providing greater clarity in what we are trying to achieve for our key clients – the Legislative Assembly and the public. In the current service plan, we did outline performance targets for 2006/07 based on our new approach. Consequently, this annual report discusses our performance in relation to these targets. As in the past, this report contains estimates and interpretive statements that represent the best judgement of management.

This report also contains an external audit opinion prepared by Grant Thornton LLP that assesses the report against the BC Reporting Principles. The audit confirms that for the first time we have met or even exceeded the standard of "fundamentals in place" for all of the eight principles.

Grant Thornton have also provided an unqualified opinion on our financial statements as shown on page 58.

This document is intended for a general audience. Specific users who require more detailed information should contact the Office.



Errol S. Price, CA
Acting Auditor General

Victoria, British Columbia
June 2007

Grant Thornton

Grant Thornton LLP
Chartered Accountants
Management Consultants

Auditors' Report

To the Speaker
The Legislative Assembly, Province of British Columbia

We have been engaged to report on the Office of the Auditor General of British Columbia's (the "Office") stage of development in incorporating the BC Performance Reporting Principles in its Annual Report for the year ended March 31, 2007. The eight BC Performance Reporting Principles outline the characteristics of good performance reporting, and have been endorsed by the Legislative Assembly's Select Standing Committee on Public Accounts for use by public sector organizations in British Columbia.

We conducted our examination in accordance with Canadian standards for assurance engagements and accordingly included such tests and procedures as we considered necessary in the circumstances.

The conclusion in our report is based on procedures that we determined to be necessary for the collection of sufficient, appropriate evidence in order to obtain a high, though not absolute, level of assurance as to the Office's stage of development in incorporating the BC Performance Reporting Principles. Readers are cautioned that we did not specifically test the accuracy of the data contained in the Office's Annual Report, and consequently we do not offer assurance on the accuracy of the information reported. Our examination was not designed to provide assurance on the appropriateness of the goals, objectives and targets established by the Office. Neither was it designed to provide assurance with respect to representations made by the Office whether the level of performance attained is satisfactory.

Stage of Development								
Fully Incorporated	●		●		●			
Fundamentals in Place		●		●		●	●	●
In process								
Start-up Phase								

In our opinion the Office's stage of development in incorporating the BC Performance Reporting Principles for the year ended March 31, 2007, is reflected in this table and the discussion following. The report fairly presents, except for the effect of any adjustments, if any, which we might have determined to be necessary had we audited the accuracy of the data as referred to in the third paragraph above, the performance of the Office for the year ended March 31, 2007, in accordance with the BC Reporting Principles. The following appendix contains details supporting our conclusion for each of the BC Reporting Principles, and is an integral part of our opinion.

Grant Thornton LLP

Victoria, Canada
June 19, 2007

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Report of Grant Thornton LLP on the 2005/2006 Annual Report of the Office of the Auditor General of British Columbia

Detailed Observations

A description of the eight principles of public performance reporting together with our assessment of the Office's stage of development, in relation to each principle, is set out below:

Principle – Good public performance reporting should:	Assessment
1. Explain the Public Purpose Served Public performance reporting should explain why an organization exists and how it conducts its business, both in terms of its operations and in the fundamental values that guide it. This is important to interpreting the meaning and significance of the performance information being reported.	**Fully Incorporated** The report explains the Office's mission and public purpose, as outlined in enabling legislation. It reports on the organization's three core business areas and the services/products provided. The report includes a discussion of the involvement of private sector auditors, the selection thereof, and the quality assurance measures in place. The report details the Office's clients and stakeholders, including the accountability relationship with the Legislative Assembly. Other factors that are critical to understanding performance are identified, including independence and objectivity.
2. Link Goals and Results Public performance reporting should identify and explain the organization's goals, objectives and strategies and how the results relate to them.	**Fundamentals in Place** The report clearly identifies the organization's mission, mandate, goals, objectives, and successfully explains their interrelationships. Performance measures are clearly reported and reflect the core substance of the objectives. Changes in reporting as a result of the Office's new approach to its vision, mission, goals and objectives are explained. The report explains variances between budgeted and actual results, as well as variances from prior years' performances, although it does not consistently outline how the Office plans to achieve targeted results.
3. Few, Critical Aspects Public performance reporting should focus on the few, critical aspects of performance.	**Fully Incorporated** The report provides meaningful information to readers of the annual report by focusing on those performance measures that are critical to the understanding of the operational performance of the Office. Key financial information is clearly presented and *understandable*. The report manages its level of detail by referring appropriately to companion documents.

Principle – Good public performance reporting should:	Assessment
4. Risk and Capacity Good performance reporting should report results in the context of an organization's risks and its capacity to deliver on its programs, products and services.	**Fundamentals in Place** The report examines the key risks to the Office and explains the impact of risk management on results during the year. Although, the report mentions that the Office has a low tolerance for risk, the discussion would be enhanced by a more in-depth description of degrees of risk and the impact on the work of the Office. The report addresses capacity in terms of human resources and funding and how these affect the ability to deliver organizational goals and objectives.
5. Link Resources, Strategies and Results Public performance reporting should link financial and performance information to show how resources and strategies influence results. Related to this is how efficiently the organization achieves its results.	**Fully Incorporated** The report highlights key financial information at an organization-wide level. Explanations are provided for variances from prior year and budgeted amounts. The report reports on efficiency through its discussions and analyses of certain performance measures. Links between resources and outputs are discussed and contribute to the reader's understanding of the economy and efficiency of operations. This link could be made even stronger by presenting the information in a consistent format.
6. Comparative Information Public performance reporting should provide comparative information about past and expected future performance and about the performance of similar organizations when it would significantly enhance a reader's ability to use the information being reported.	**Fundamentals in Place** The report provides comparative data in its analyses of performance measures. The report explains that benchmarks and industry data were sought, but information for direct comparisons was unavailable. Changes in objectives and performance measures from the service plan are disclosed appropriately. In general, performance measures are presented in a manner consistent with prior years.
7. Credible Information, Fairly Interpreted Public performance reporting should be Public performance reporting should be credible – that is, based on quantitative and qualitative information that is fairly interpreted and presented, based on the best judgment of those reporting. The information presented should strike a balance among the following attributes: consistency, fairness, relevance, reliable, verifiable, understandable and timely.	**Fundamentals in Place** ***Reliable and verifiable:*** As indicated in our report, we did not specifically test the accuracy of the data, and consequently we do not offer assurance on the accuracy of the information reported. Systems for producing reported data are established and documented, although the controls themselves have not been tested. In the report, the Office has expressed its own assessment of the *reliability* of the information in their discussion of data sources and limitations. ***Timely:*** The report is issued according to the statutory reporting and tabling deadlines. ***Understandable:*** The report uses flow-charts, tables and graphs effectively. Specialized terminology has been kept to a minimum. ***Consistency, Fairness and Relevance:*** These attributes are assessed in relation to other reporting principles, as *highlighted*.

Principle – Good public performance reporting should:	Assessment
8. Disclose Key Reporting Judgments Public performance reporting should disclose the basis on which information has been prepared and the limitations that should apply to its use.	**Fundamentals in Place** The report identifies the sources of information for performance measure data. Limitations to data sources, where present, are disclosed. Reasons for changes to objectives and performance measures are sufficiently explained. The report discusses the Office's confidence in the reliability of the data, and reports successes and shortcomings in a *fair* and balanced manner. As indicated in our report, we were not engaged to verify the accuracy of the internally generated performance information. It appears the information is capable of being verified by audit, however, so a standard of excellence should be achievable under Principle 8 if independent verification is performed in future years.

Vision, mission, goals and values

Vision

A highly valued legislative audit office recognized for excellence in promoting effective and accountable government.

Mission

To serve the people of British Columbia and their elected representatives by conducting independent audits and advising on how well government is managing its responsibilities and resources.

Goals

In supporting the Legislative Assembly with credible, relevant and timely information, our key goals are to have in place:

1. sound financial administration and reporting
2. well-managed provincial programs, services and resources
3. comprehensive public sector accountability reporting
4. effective public sector governance
5. best practices in our work and as an employer

Values

External focus

- Independence: providing impartial and objective opinions and advice
- Integrity: taking a fair, balanced and evidence-based approach
- Open communications: informing our stakeholders throughout our work
- Service-focused: being accountable and holding professionalism at the forefront

Internal focus

- Teamwork: cooperating, supporting and respecting each other's contributions
- Work and life balance: respecting quality-of-life and personal commitments

About the Office of the Auditor General

Our mandate and role

The Office of the Auditor General has a unique role in British Columbia. By being independent of the government and reporting directly to the Legislative Assembly, we provide a measure of assurance about government's overall operations that no one else does.

The Office provides the public and the Legislative Assembly with a strong means for holding government to account for how it delivers its programs and services to the people of British Columbia. The Office's mandate is broad and covers audits not only of the financial statements of the province, but also of government's performance reports and delivery of specific programs and services. In 2006/07 the government estimated the cost to deliver its program and services to be $34 billion.

The Auditor General is one of eight statutory Officers of the Legislature and is appointed for a six-year term by the Legislative Assembly. Reappointment can be made for a second term of up to 6 years. The Auditor General reports impartial assessments of public sector accountability and performance to the Assembly and, in doing so, contributes to improved accountability and performance in the British Columbia public sector.

Under the authority of the Auditor General Act, the Auditor General has a mandate to audit all parts of the provincial public sector, including its ministries, Crown agencies and other organizations (such as school districts, colleges and institutes, universities, and health authorities).

The Act requires the Auditor General to audit the government's annual Summary Financial Statements. The Act also allows the Auditor General to be appointed as the financial statement auditor of any organization that is included in the government reporting entity (i.e., any organization for which financial results are consolidated into the Summary Financial Statements), consistent with the financial statement audit coverage plan reviewed and approved by the Select Standing Committee on Public Accounts of the Legislative Assembly.

The Act also allows the Auditor General to carry out examinations focusing on, among other things, whether government (through its ministries) or a government organization is operating economically, efficiently and effectively; and whether the performance information provided to the Legislative Assembly by the government or a government organization concerning program results is adequate.

Our Office is one of the few independent sources of relevant, credible, high quality assurance information for British Columbians. We carry out a role that is key to good public accountability and vital to the democratic process of responsible government.

Our clients and key stakeholders

Our clients are the people of British Columbia and their elected representatives, the Members of the Legislative Assembly (MLAs). To serve the public, we ensure all of our reports are accessible, electronically through our website and in print form as requested. Our audit reports are tabled in the Legislative Assembly and then referred to the Select Standing Committee on Public Accounts (PAC), an all-party committee of the Assembly. The PAC meets in a public forum to review our reports and recommends that the Legislative Assembly accept or reject our audit recommendations.

Our primary corporate accountability and performance documents (business and financial plan, service plan, and annual report) are also tabled in the Assembly, but are referred to a different committee, the Select Standing Committee on Finance and Government Services (FGS).

To ensure we are meeting the needs of our clients – MLAs and, through them, the general public – we interview annually members of both select standing committees. These interviews are extremely valuable. The members' views not only provide direct input into our key performance measures, but also we build this information into the development of our work plan. Further details about our MLA interviews are discussed later in this report (see "How we measure our performance").

We also believe it is important to gain direct insight into the public's views on our work. In May 2007, for only the second time, Ipsos-Reid surveyed the public on our behalf. We now incorporate the results of this survey – the percentage of the public surveyed who believe in the value of our audit work – into our key performance measures. While we do not actively engage in high profile activities to promote awareness of the Office, we still believe it is important to obtain a sense of how much the public values our work. These results are also discussed more fully in "How we measure our performance" later in this report.

Our main stakeholders are the public sector organizations within the government reporting entity (included in "Government" in Exhibit 1). These include all 19 ministries and about 150 other government organizations and trust funds. We send a satisfaction survey to those organizations that

Source: Office of the Auditor General of British Columbia

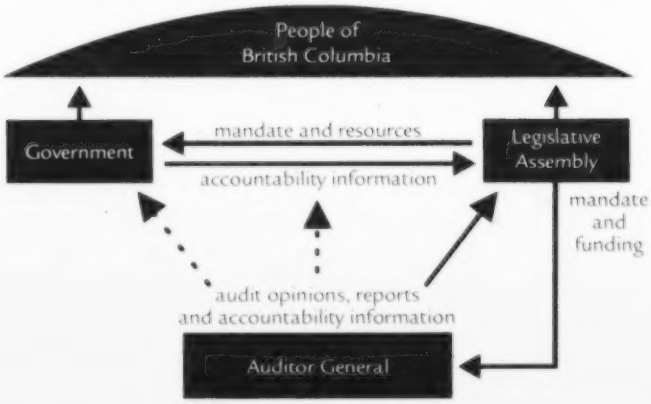
British Columbia's Parliament Buildings.

"Our mission is to serve the people of British Columbia and their elected representatives by conducting independent audits and advising on how well government is managing its responsibilities and resources."

we audit directly. The results of this survey are reported and discussed more fully in *performance measure 8, the percentage of audited organizations* satisfied with how we conducted our work.

Given the importance we place on serving our clients and managing our stakeholder relations effectively, we obtain their views and report on them publicly.

Exhibit 1 **The Office of the Auditor General plays a key role in strengthening provincial public sector accountability**



We have other significant stakeholders, including the Canadian Institute of Chartered Accountants (which sets the auditing standards we follow), other professional accounting bodies, sector-specific organizations, and other legislative audit offices across the country.

We also work closely with private sector auditing firms. While we audit directly the 19 ministries of government and 26 organizations in the government reporting entity, private sector auditing firms conduct the remaining financial statement audits of the approximately 150 government organizations included in the government reporting entity. In addition, we audit directly one organization that is not within the government reporting entity.

Our Financial Statement Audit Coverage Plan for Fiscal Years 2007/08 through 2009/10 details our level of involvement in each organization:

- ***direct audit involvement:*** the Auditor General is the auditor for the organization. The audit is conducted either directly by staff of the Auditor General or through competitively bid contracts with private sector firms. In either case, the Auditor General is responsible for the audit and signs the opinion.

- ***oversight involvement:*** an auditor other than the Auditor General is appointed auditor of the organization or trust fund. By conducting extended procedures (e.g., attending audit committee meetings, reviewing appointed auditor's audit plans and year-end audit files), the Auditor General is better able to understand the business of and issues in these significant organizations.
- ***limited involvement:*** an auditor other than the Auditor General is appointed auditor of the organization or trust fund. The planned role of the Auditor General is limited to meeting minimum professional requirements (e.g., communicating with appointed auditors on intended reliance, reviewing appointed auditor's files on a sample basis).

Our involvement depends on a number of factors including the size, scope and significance of the organization being audited. In general, we require sufficient involvement across all government organizations to enable us to provide our audit opinion on the Summary Financial Statements of the Province.

Under our plan, private sector auditing firms actually conduct most of the school, university, college and hospital sector audits. This plan relies on the private sector's ongoing capacity, expertise and adherence to professional standards to carry out the audits and ensure the audits are conducted in accordance with generally accepted auditing standards. The process for the selection and appointment of a private sector auditing firm is the responsibility of the governing boards of government organizations, as outlined in *A Guide to the Appointment of Auditors for Government Organizations* – a document we produced to assist the selection process. A Request for Proposal for Audit Services is often issued to select a firm that is best qualified to conduct the audit.

When we have significant involvement in an audit, we will review the work of the private sector firm, as appropriate, which provides us with the direct knowledge to be able to rely on its work. In addition, any public sector organization being audited can ask our Office to become more involved in an audit if there are outstanding issues to resolve.

By understanding the needs of our clients and working with our stakeholders, we are better able to ensure our work meets our overall vision of being a highly valued legislative audit office, recognized for excellence in promoting effective and accountable government.

Source: Office of the Auditor General of British Columbia

Jason Reid and Hemendra Shah, Directors of Financial Audit.

About the Office of the Auditor General

Our structure and resources

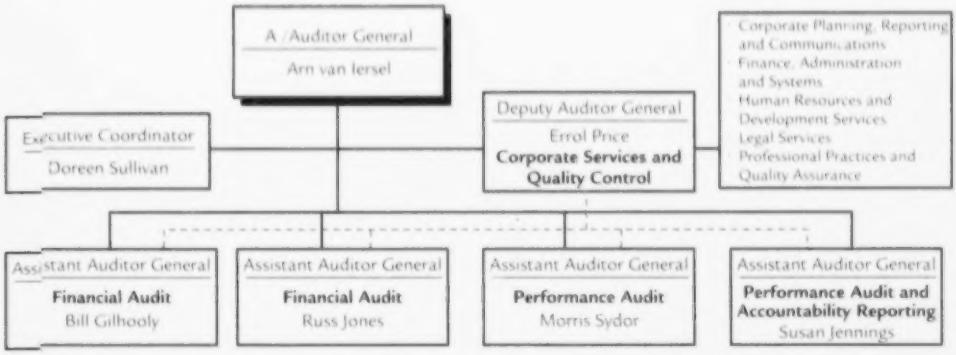
In 2006/07, the then–Acting Auditor General was supported on average by 83 permanent staff. The majority of our audit staff have accounting designations, many also having additional credentials and a broad experience base. As well, we have subject-matter experts in areas such as business and public administration, law, education, social and environmental sciences and health care to support our work in performance auditing.

We are also a training Office so students play an important part in our organization. Although our main focus is mentoring accounting students, we also have students from other disciplines who are continually developing expertise in our performance portfolios and in operational services, such as information technology. In 2006/07, we were pleased to have seven of our students receive their designation – four as Chartered Accountants, two as Certified General Accountants and one as a Certified Management Accountant.

To carry out our mandate, we have three lines of business: financial audit, performance audit, and accountability reporting. During 2006/07, the Office reorganized its operational structure to align with our lines of business. This approach also better aligns with the new goals of the Office. Staff portfolios were organized into these lines of business, as indicated by Exhibit 2.

While not a separate line of business, Corporate Services provide centralized office-wide support. Primary functions include corporate planning and reporting, professional practices, legal services, human resource management and business functions such as financial services, information technology and general administration.

Exhibit 2 **Operations structure in the Office of the Auditor General, 2006/07**



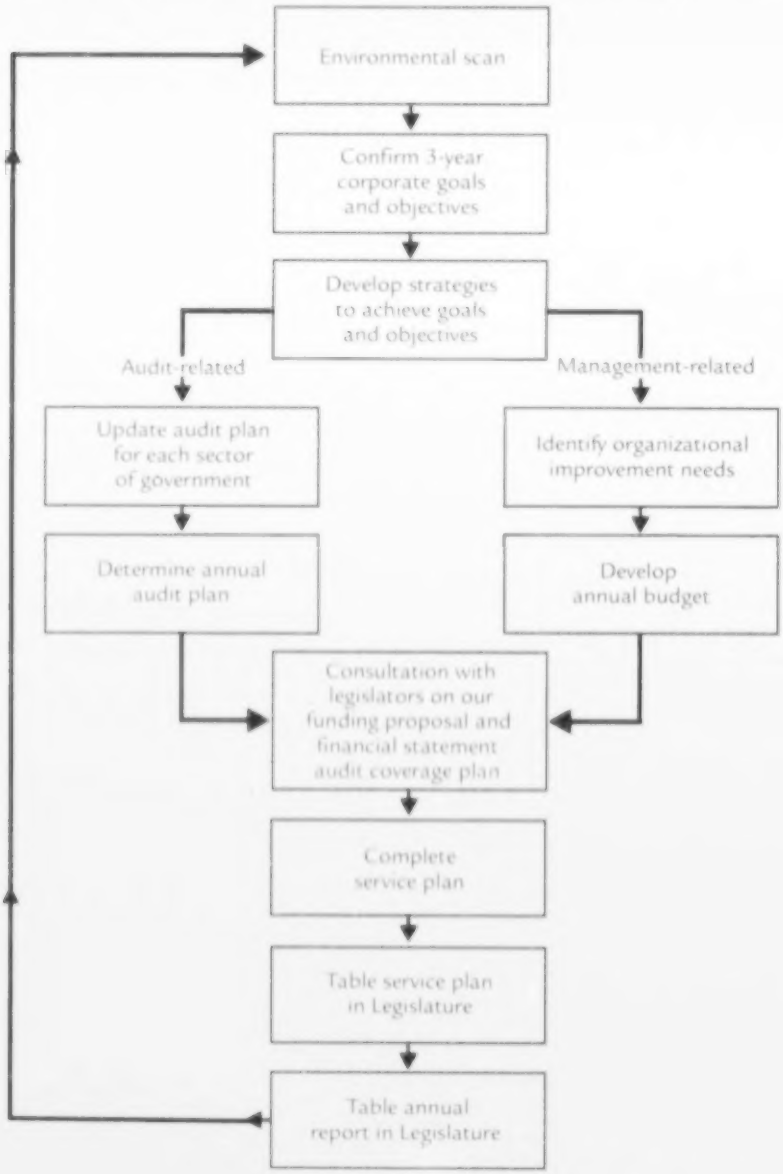
The Office's 2006/07 expenditures were $10.71 million. Our finances are discussed alongside our financial statements under the heading titled "Our financial performance" on page 47.

Our planning, funding and reporting cycle

Our planning, funding and reporting cycle, depicted in Exhibit 3, sets out how our corporate goals and objectives guide our internal planning activities and result in:

1. an updated audit plan for each sector of government; and
2. initiatives that improve our organizational performance.

Exhibit 3 **Planning, funding and reporting cycle in the Office of the Auditor General**


Environmental scan
Confirm 3-year corporate goals and objectives
Develop strategies to achieve goals and objectives
Audit-related
Management-related
Update audit plan for each sector of government
Identify organizational improvement needs
Determine annual audit plan
Develop annual budget
Consultation with legislators on our funding proposal and financial statement audit coverage plan
Complete service plan
Table service plan in Legislature
Table annual report in Legislature

The Auditor General Act requires strong involvement by committees of the Legislative Assembly in reviewing the Auditor General's work. Accordingly, in November of each year, we submit our financial statement audit coverage plan and our business and financial plan to the Legislative Assembly. The Assembly refers these documents to, respectively, the Select Standing Committee on Public Accounts and the Select Standing Committee on Finance and Government Services. The audit coverage plan outlines a three-year plan for the appointment of either the Auditor General or a private sector firm as the auditor of the different government organizations and trust funds. The business and financial plan contains our overall proposed work program and related costs.

Our annual service plan, tabled in the Legislative Assembly in February of each year, confirms our strategic direction and outlines our work program for the next three years across all our lines of business. It reflects the approved financial statement audit coverage plan and is based on the funding recommendations made by the Select Standing Committee on Finance and Government Services. Our annual report, tabled at the end of June each year, completes this cycle by providing information about the Office's performance for the year ended March 31, assessed against the previously published service plan. This annual report as explained previously (see Accountability for the Annual Report) does not follow the usual cycle.

Challenges, opportunities, and risks

As outlined in our 2007/08–2009/10 Service Plan, our major challenges and opportunities relate to:

- attracting and retaining qualified staff;
- continuing to meet rapidly evolving audit standards;
- addressing operational cost pressures;
- delivering essential performance audits;
- capitalizing on our existing strengths; and
- increasing our focus on accountability reporting.

In December 2006, we described these challenges and opportunities to the Select Standing Committee on Finance and Government Services. We presented four budget options specifically linked to these elements. (The options are outlined on pages 20–22 of our 2007/08 Business and Financial Plan). The Finance and Government Services Committee recommended a budget of $12.75 million ($10.35 million in voted appropriation and $2.40 million in fee-for-service recoveries) for 2007/08. This represents an increase of $2.25 million (21%) over our budget for 2006/07 and provides the resources to address the first five elements above.

Our major risks and risk management approach continued to focus on:

- ***capacity*** – we cannot be successful if we are not able to recruit and retain high quality professionals.
- ***credibility*** – we cannot be successful if we provide inappropriate or incorrect assurance and advice.
- ***independence and objectivity*** – we cannot be successful if we lose, or are perceived to lose, our independence or objectivity.
- ***relevance*** – we cannot be successful if we do not adequately understand or respond to the information needs of the Legislative Assembly and the public.
- ***work environment*** – we cannot be successful if we do not have the necessary mechanisms and tools – planning, human resource management, training, information systems and business supports – that we require to do our work competently, efficiently and effectively.

These risks were discussed in our service plan, but because of their potential to have a significant impact on our business if not well managed, we think it is important to highlight them and some of the actions that we are taking to help mitigate their impact.

Capacity

The most important component of our capacity is our people. It is extremely important for us to be able to retain our existing staff and attract new employees as required. Recruitment of staff is a challenge for all our lines of business but more so for our financial portfolio. The demand for qualified accounting professionals continues to grow and the Office competes not only with the public sector, but also with private sector auditing firms.

We actively recruit for students and new graduates by participating in a number of outreach activities such as career days and job fairs, and working with professional associations and the universities and colleges.

We have also moved to strengthen our human resource department with the hiring of a Manager of Training and Development to assist in the support of students and developing professionals.

Source: Office of the Auditor General of British Columbia

Patti Hupé, Manager of Finance and Administration and Gillian Wainwright, HR Technician, with our Manager of Training and Professional Development, Dr. Brigitte Harris

About the Office of the Auditor General

Credibility

Our credibility is essential to our role as British Columbia's Auditor General. This role comes with an important responsibility to the people of the province to "get it right." We face a significant risk to our credibility if our work is not supported by sound evidence and processes.

We strive to preserve our credibility by having in place effective quality control policies and procedures to help ensure our work meets professional auditing standards. This means, for example, that all of our performance audits and any other audit work that is considered a high-risk (e.g., one that is controversial and complex), have an executive-level quality control mechanism put in place to mitigate the risk of our credibility being challenged. Specific risks are addressed as they arise and then more broadly during the annual development of our three key accountability documents (business and financial plan, service plan and annual report).

Independence and objectivity

The primary value of our Office is that we provide legislators, the public and government with independent assessments about the performance of government and its organizations. If that independence were compromised, our perceived value would be severely diminished. Accordingly we devote considerable management attention to our independence.

The Auditor General Act has a number of provisions to safeguard our independence. For example, the Auditor General reports directly to the Legislative Assembly, not to the government of the day.

As well, under Canadian generally accepted auditing standards, we are required to perform all assurance engagements with due care and with an objective state of mind. Our audit methodologies and quality control processes are designed to ensure that individually and collectively we meet this standard in all our work. This includes audit teams completing an independence checklist prior to undertaking work in an organization.

Relevance

Our relevance depends on our understanding the needs of our main client groups – the legislators and the general public – and being able to deliver information on a range of audit and accountability reporting topics that they find important. To keep our understanding current, we conduct an annual survey of members of the Select Standing Committees on Finance and Government Services and Public Accounts. We specifically ask how much they value the work of the Office and invite their suggestions on how we can better serve their needs. We also survey the public annually on how it views the value of our work.

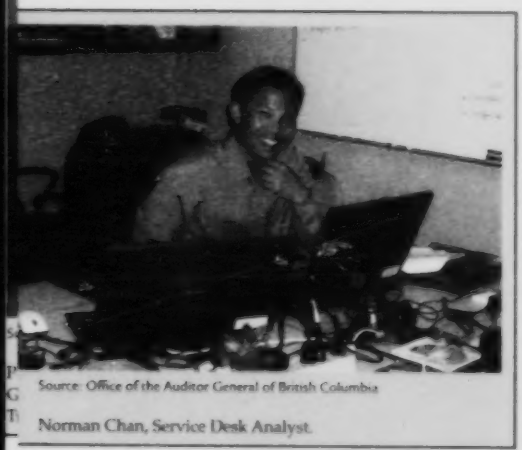
About the Office of the Auditor General

Work environment

Our audit staff requires strong administrative, technical and professional development support, as well as an appropriate physical work environment. Support activities such as professional development, corporate planning, information technology and financial and administrative services are a necessary and integral part of our organization. We strive to provide these support functions to our audit staff so that all have the right knowledge, tools and resources (e.g., training and project management supports to perform effectively and efficiently).

We further aim to be an employer of choice in attracting and retaining staff through effective human resource planning and management. This means actively consulting with staff and incorporating ideas and suggestions into meeting their personal needs in line with corporate goals and objectives. To facilitate our understanding of staff needs we have monthly office-wide staff meetings in addition to regular portfolio staff meetings. As well, we conduct an annual employee work environment survey.

Overall we have a low tolerance for risk in how we conduct our work. An example, as noted above is the considerable management attention devoted to ensuring our independence. Another example, is the executive-level quality control mechanism we put in place for all performance audits and any other audit work that is considered high-risk (e.g., one that is controversial and complex) to help mitigate the risk of our credibility being challenged. In addition, we usually contract with subject-area specialists to advise us as our performance audits progress.



Source: Office of the Auditor General of British Columbia

Norman Chan, Service Desk Analyst.

In October 2006, the Office renewed its vision, mission and goals (Exhibit 4). These strategic elements were revised, incorporating the views of staff, executive and information gathered from a review of the strategic plans of other legislative audit offices. The views of legislators were sought and influenced our general direction. These changes reflect the Office's desire to be forward-looking, outcomes-based and relevant to the Legislative Assembly and public.

To guide us in our efforts in making these changes, we also developed attributes that further describe our vision (see Exhibit 4) and revised our corporate values to differentiate between an external focus and an internal focus, as set out below.

External focus:

- Independence: providing impartial and objective opinions and advice
- Integrity: taking a fair, balanced and evidenced-based approach
- Open communications: informing our stakeholders throughout our work
- Service-focused: being accountable and holding professionalism at the forefront

Internal focus:

- Teamwork: cooperating, supporting and respecting each other's contributions
- Work and life balance: respecting quality-of-life and personal commitments

These values are reflected in our standards of service, which focus on:

- approaching our work in a fair and constructive way;
- providing accurate, reliable assessments and sound advice; and
- building strong relationships.

How we live up to our values (in keeping with these standards of service) is now evident through performance measure 8, the percentage of audited organizations satisfied with how we conducted our work. This satisfaction rating is based on an assessment of many of these values as described further in "How we measure our performance" later in this report.

Our performance reporting framework

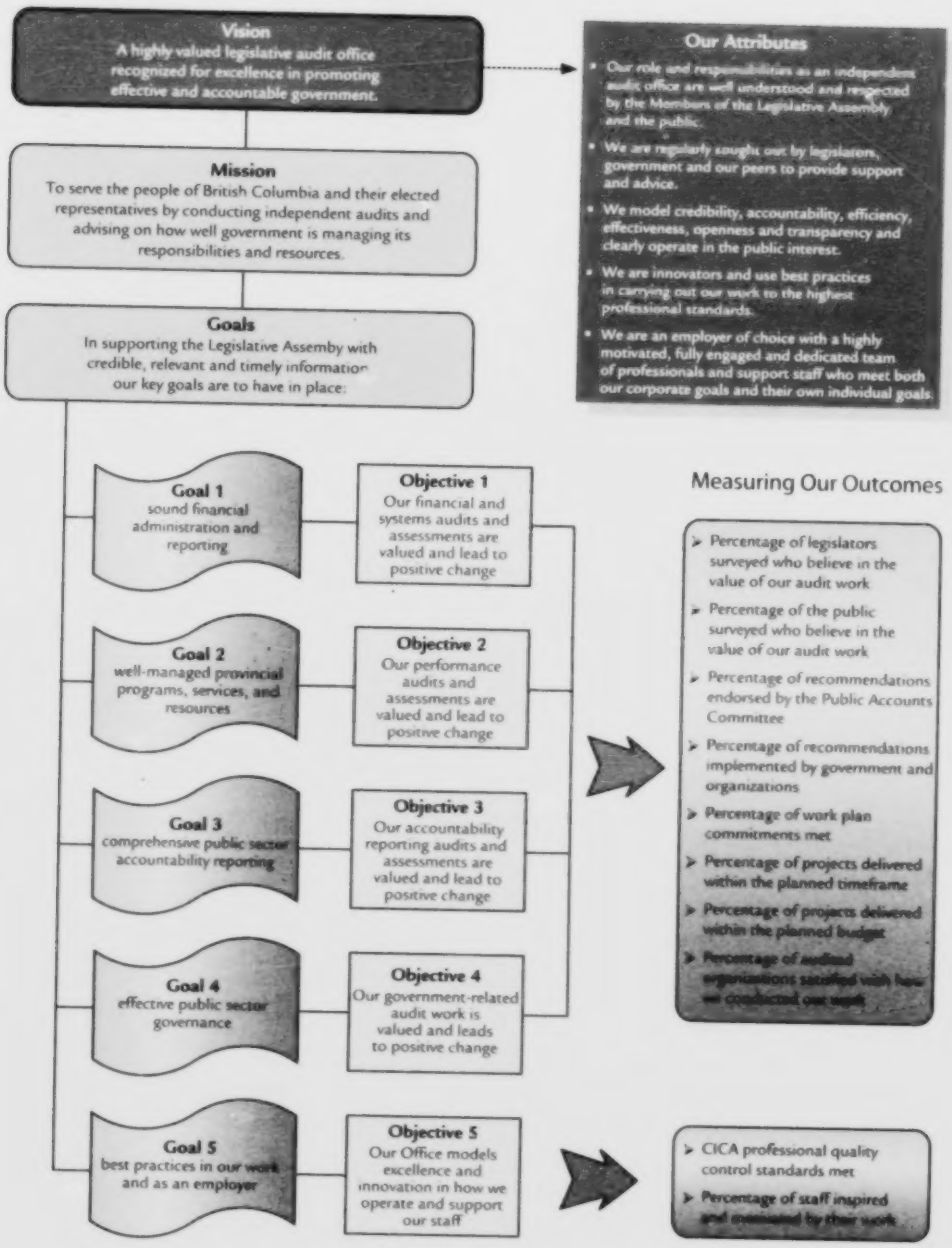
We manage our overall performance related to our goals, objectives and specific performance measures by reviewing how well we are doing periodically throughout the year. For example, we monitor whether our projects will be on time (performance measure 6) and how effectively our quality control processes are implemented (performance measure 9). We then adjust course if necessary to try to improve our performance results.

Setting our strategic direction

However, there are some measures that can only be monitored annually. An example is the annual MLA survey. For these measures, we instead need to actively monitor the strategies we have in place to ensure we make progress.

Our first three goals focus on our three lines of business: financial audits, performance audits, and accountability reporting. Goal 4 cuts across the three lines of business. The objective for goals one to four is the same in that the audits and assessments carried out for each line of business are valued and lead to positive change. Goal 5 is focused on how we carry out our audit work.

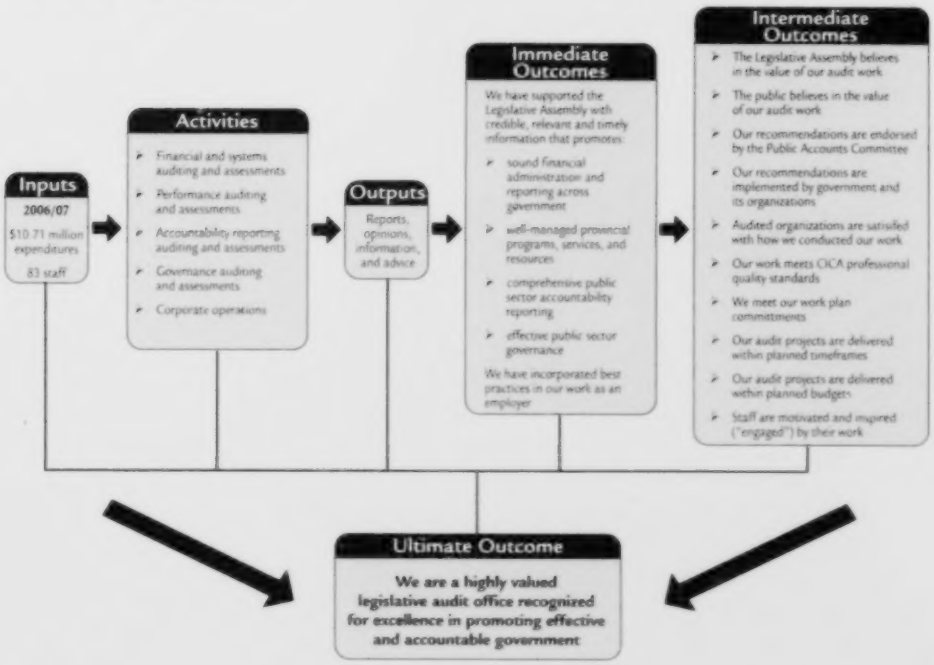
Exhibit 4 Performance reporting framework of our Office


Vision
A highly valued legislative audit office recognized for excellence in promoting effective and accountable government.
Our Attributes
Our role and responsibilities as an independent audit office are well understood and respected by the Members of the Legislative Assembly and the public.
We are regularly sought out by legislators, government and our peers to provide support and advice.
We model credibility, accountability, efficiency, effectiveness, openness and transparency and clearly operate in the public interest.
We are innovators and use best practices in carrying out our work to the highest professional standards.
We are an employer of choice with a highly motivated, fully engaged and dedicated team of professionals and support staff who meet both our corporate goals and their own individual goals.
Mission
To serve the people of British Columbia and their elected representatives by conducting independent audits and advising on how well government is managing its responsibilities and resources.
Goals
In supporting the Legislative Assembly with credible, relevant and timely information our key goals are to have in place:
Goal 1
sound financial administration and reporting
Objective 1
Our financial and systems audits and assessments are valued and lead to positive change
Goal 2
well-managed provincial programs, services, and resources
Objective 2
Our performance audits and assessments are valued and lead to positive change
Goal 3
comprehensive public sector accountability reporting
Objective 3
Our accountability reporting audits and assessments are valued and lead to positive change
Goal 4
effective public sector governance
Objective 4
Our government-related audit work is valued and leads to positive change
Goal 5
best practices in our work and as an employer
Objective 5
Our Office models excellence and innovation in how we operate and support our staff
Measuring Our Outcomes
Percentage of legislators surveyed who believe in the value of our audit work
Percentage of the public surveyed who believe in the value of our audit work
Percentage of recommendations endorsed by the Public Accounts Committee
Percentage of recommendations implemented by government and organizations
Percentage of work plan commitments met
Percentage of projects delivered within the planned timeframe
Percentage of projects delivered within the planned budget
Percentage of audited organizations satisfied with how we conducted our work
CICA professional quality control standards met
Percentage of staff inspired and committed by their work

Setting our strategic direction

While Exhibit 4 provides a strategic overview of what we have set out to accomplish (our outcomes), Exhibit 5 shows how our outcomes link to our operations.

Exhibit 5 **Operational logic model**


Inputs
2006/07
$10.71 million expenditures
83 staff
Activities
Financial and systems auditing and assessments
Performance auditing and assessments
Accountability reporting auditing and assessments
Governance auditing and assessments
Corporate operations
Outputs
Reports, opinions, information, and advice
Immediate Outcomes
We have supported the Legislative Assembly with credible, relevant and timely information that promotes:
sound financial administration and reporting across government
well-managed provincial programs, services, and resources
comprehensive public sector accountability reporting
effective public sector governance
We have incorporated best practices in our work as an employer
Intermediate Outcomes
The Legislative Assembly believes in the value of our audit work
The public believes in the value of our audit work
Our recommendations are endorsed by the Public Accounts Committee
Our recommendations are implemented by government and its organizations
Audited organizations are satisfied with how we conducted our work
Our work meets CICA professional quality standards
We meet our work plan commitments
Our audit projects are delivered within planned timeframes
Our audit projects are delivered within planned budgets
Staff are motivated and inspired ("engaged") by their work
Ultimate Outcome
We are a highly valued legislative audit office recognized for excellence in promoting effective and accountable government

How we measure our performance

Our performance measures

Our measures as presented in our 2006/07 Service Plan were renewed in February, 2007, given the Office's new approach to our vision, mission, values, goals and objectives. We started by assessing how well our previous 18 measures reflected this new approach. A primary consideration was to focus on the few, critical aspects of performance that we believe the Legislative Assembly and public would find most relevant (consistent with the BC Reporting Principles).

The revised measures incorporated in this report are predominantly outcomes-based and link directly to our five goals and objectives. Eight of the

measures report on the goals and objectives that are focused on our audit work. The remaining two are focused on how we operate and support our staff.

To be as transparent as possible the paragraph below outlines why we reduced our measures from 18 to the 10 measured in this report.

Six measures (2, 3, 7, 8, 14 and 15) from previous years are now, we believe, all captured in our new performance measure 1, the percentage of legislators surveyed who believe in the value of our work. Two measures (1 and 6) from previous years have been removed because they were measures of what government was doing and not directly a measure of our performance. Furthermore, we determined that three measures (10, 16 and 17) were internally focused and not relevant to an external audience. These three measures would more appropriately be part of our management strategy related to internal operations. We retained the remaining seven measures for our external reporting, although some have been modified to ensure they encompass our three lines of business.

While they are fewer in number than before, we believe the 10 measures selected actually provide more meaningful information to legislators and the public, at a summary level, to indicate the extent to which we are achieving our vision, mission, goals and objectives.

Where the measures reflect previous years or can be restated, we report trend data.

Our targets

Our planned performance for 2006/07 was outlined in our 2007/08–2009/10 Service Plan. Where the measures and targets in the plan are the same as in other years, the targets for 2006/07 have not changed. Targets identified for the new measures were based on our view of what constituted good performance in light of our external environment and trend data (or proxies) as available. The issues in our external environment we discussed earlier.

We have looked for comparable target benchmarks, but continue to find little publicly available information for direct comparisons. It would seem logical for us to look to other legislative audit offices for comparators. However, other audit offices have differing mandates resulting in different work and performance measures that are not comparable.

We think it is important to set "stretch targets" aimed at continuous improvement, and we want our targets to be grounded in past performance and informed by benchmark comparisons where possible. We will continue assessing our targets and searching for comparable benchmarks and better management processes that we can adopt to improve the targets we set and, consequently, our related performance.

Data sources and limitations

We use three main data collection methods: the Office's internal management information systems, our audit reports, and survey data. Each of these approaches provides us with reliable data to support our key performance measures. There are, however, some specific issues related to the data that are important to identify at the outset.

The Office information systems provide us with reports on our operations, finances and staff. This means that operational data is well supported by information available internally. We are making improvements to ensure greater consistency and precision in the information going into our systems (e.g., improving definitions for audit start and completion dates). Overall, we are confident that the systems are providing the information we need to report on our performance.

We undertake four types of surveys. The first is of organizations we audit. For our 2006/07 performance results, we surveyed 97 people and received a response rate of 55%. This approach uses a consistent set of questions through a standardized electronic survey. The survey is not done anonymously, however, and so responses may be tempered by that fact. As well, while we specifically attempt to have respondents focus their views on how we conducted our audits and not on whether they agree or disagree with our audit findings, we realize that it may be difficult for respondents to separate the two.

Despite these issues, we believe that the underlying data we obtain from this survey is still robust enough to support the performance measure we are reporting on.

Source: Office of the Auditor General of British Columbia

Bruce Perry, Project Leader, Financial Audit and Ken Ryan-Lloyd, Project Leader, Performance Audit.

The second survey type provides data we gather from our primary client group, MLAs. Each year, the Office conducts uniformly structured discussions with individual MLAs who were members of the Select Standing Committee on Public Accounts or the Select Standing Committee on Finance and Government Services. In 2006/07, we met with 20 of the 21 MLAs who served on either committee (a 95% response rate). As in previous years, we recognize that interviewing individuals in person can influence their responses to our survey. However, we asked the same questions at each interview and used the same rating scale to record responses in a consistent manner. During the last survey, we also sent back individual survey results to each MLA to confirm that we accurately recorded the numerically based ratings of

each survey conducted. Again, we believe the data is robust enough to support the performance measures we are reporting on.

A third survey is conducted by an external polling company and asks the general public about the value of the Office.

The fourth survey obtains staff feedback on our work environment. As Goal 5 indicates, we strive to be an exemplary workplace and we want to know what staff members think of the Office. For that reason, we ask our staff annually about how well the Office functions and carries out its work. The 2006/07 survey was sent to all staff and we received a 76% response rate. Confidentiality was a critical component of the electronic survey and the information was collated and analyzed by an external consultant.

In the description of our performance that follows, we identify the data sources as described above for each measure and provide comparable data of previous years – where possible, given the change to our performance measures.

How the remainder of this report is organized

We have organized this report by performance measure. Performance measures 1 to 8 pertain to goals and objectives 1 to 4. Measures 9 and 10 pertain to goal and objective 5. For each one, we describe the measure and discuss how it assesses our progress in meeting our goals and objectives.

Our performance at a glance

As illustrated by our performance reporting framework and operational logic model (Exhibits 4 and 5), our ten performance measures are directly linked to the new goals of the Office. Our first eight measures report on how well we have supported the Legislative Assembly with credible, relevant and timely information related to the key areas of our mandate, for example, financial administration and reporting. Our last two measures focus on our internal operations and whether we have good practices in place, such as quality controls.

Our achievements

In 2006/07, the Office achieved some significant results in our three lines of business, while at the same time made considerable progress from a strategic and operational perspective.

Financial Audit

Our financial audit work, which aligns with Goal 1, accounts for 55% or $5.85 million of our total expenditures and continues to be the bulk of the work we do and the most significant use of our resources. The major accomplishments within the financial audit line of business were the:

- issuance of the audit opinion on government's 2005/06 summary financial statements;
- completion of 34 audits of the 2005/06 financial statements of 26 public sector organizations;
- oversight of audits of 2005/06 financial statements of 20 public sector organizations;
- publication of a report highlighting key issues related to the province's finances (*Monitoring Government's Finances Province of British Columbia*);
- publication of a report describing the extent to which government is adopting best practices in financial reporting (*Seeking Best Practices in Financial Reporting: Report on the Province's 2005/06 Public Accounts*); and
- publication of a report focusing on governance practices as represented by audit committees across the BC public sector (*Province of British Columbia Audit Committees: Doing the Right Things*).

Our measure-based performance

Performance Audit

Aligning with Goal 2, our performance audit unit work accounts for 23% or $2.47 million of our total expenditures. The allocation of resources to this line of business and the number of audits we plan to conduct in the future will continue to grow in line with our vision. The major accomplishments within this line of business were the:

- publication of 7 performance audit reports focusing on the 2010 Olympic and Paralympic Winter Games, treaty negotiations, government's Corporate Accounting System, post-secondary expansion, British Columbia's ferry system, infection control in British Columbia's health authorities and the BC Rail investment partnership;
- publication of a follow-up report focusing on healthy workplaces for British Columbia's health care workers;
- work in progress on a number of audits focusing on literacy programs, aboriginal child protection, child and youth mental health, forest worker safety, the financial framework supporting the Legislative Assembly, trades training and the ancouver Convention Centre expansion project; and
- development of a revised follow-up process (in consultation with the Select Standing Committee on Public Accounts).

Accountability Reporting

Although the work we do to provide assurance on comprehensive public sector accountability reporting (Goal 3) currently accounts for only 4% or $.44 million of our total expenditures, we would like to see this line of business develop further. The major accomplishments in 2006/07 for this line of business were:

- issuance of audit opinions on the annual service plan (performance) reports of three agencies (WorkSafe BC, Public Guardian and Trustee and the British Columbia Assessment Authority); and
- working with CCAF (a non-profit, national research foundation) on a ten-year retrospective of performance reporting in British Columbia, to be published in 2007.

Source: Office of the Auditor General of British Columbia

Brenda Marin-Link and Reed Early, Project Leaders, Performance Audit.

Strategic and Operational Initiatives

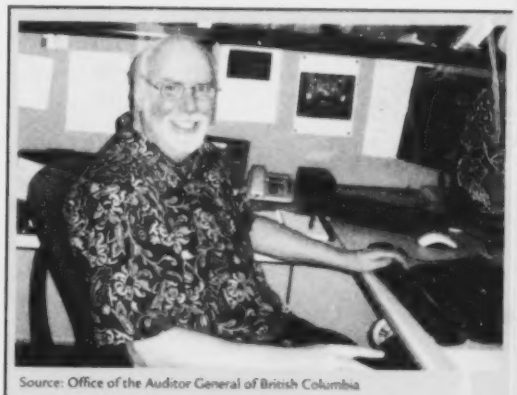
Much of the work we do to develop our strategy and long-term vision, maintain our professional standards and ensure we have the capacity in terms of human resources, technology and operational support falls within our fifth goal – best practices in our work and as an

employer. In 2006/07, expenditures related to these initiatives were $1.95 million, or 18% of our total expenditures. Some of the major strategic and operational accomplishments were:

- conducting two staff planning sessions to obtain input and involvement in setting the Office's future direction;
- establishing a new office vision, mission and goals to guide our operations;
- reorganizing the office to better align staff with our key goals;
- developing a vision 2011 work environment and operating plan to improve internal operations and the Office's ability to attract and retain staff;
- presenting a new approach on the Office's budget submission to the Legislative Assembly that resulted in a budget increase of over 20%;
- developing a five-year work plan that describes all the major projects the Office will be undertaking;
- creating a more focused suite of 10 key performance measures;
- developing and delivering training on a new audit methodology to comply with new auditing standards;
- upgrading office information technology and operating platforms; and
- hiring a Manager, Training and Professional Development and starting to develop a core training curriculum for financial statement and performance auditing.

Although much was accomplished, we did not achieve as much as we had hoped with respect to meeting our performance targets. The table below summarizes our performance measures, targets and results for 2006/07. The results are surprising to us, in particular the ones which indicate a lower level of performance than past years. For example, performance measure 3, percentage of recommendations endorsed by the Select Standing Committee on Public Accounts. In prior years, all of our recommendations have been endorsed by the PAC. However, in 2006/07, the PAC reviewed a particularly controversial report related to the 2010 Olympic and Paralympic Games. While the PAC did not reject our recommendations, it also did not endorse them. This leads us to report a lower performance result on this measure even though the PAC acknowledged that our report "helped to clarify the complexity of undertaking the 2010 Games."

Full descriptions and detailed information follow in the next section of the report with respect to each measure.



Source: Office of the Auditor General of British Columbia

Rob Cowley, IT Audit Analyst

Our measure-based performance

Performance Measure	Target	Result
1. Percentage of legislators who believe in the value of our work	96%	100%
2. Percentage of the public surveyed who believe in the value of our audit work	82%	79%
3. Percentage of recommendations endorsed by the Select Standing Committee on Public Accounts (PAC)	100%	90%
4. Percentage of recommendations implemented * Performance audit reports only	70%	59%*
5. Percentage of work plan commitments met	n/a	64 (actual number)
6. Percentage of projects delivered within the planned timeframe	85%	77%
7. Percentage of projects delivered within the planned budget	60%	40%
8. Percentage of audited organizations satisfied with how we conducted our work	80%	72%
9. Professional quality control standards met	FC	SC
10. Percentage of staff motivated and inspired ("engaged") by their work	74%	60%

n/a = not available SC = substantially compliant FC = fully compliant

Our performance by measure

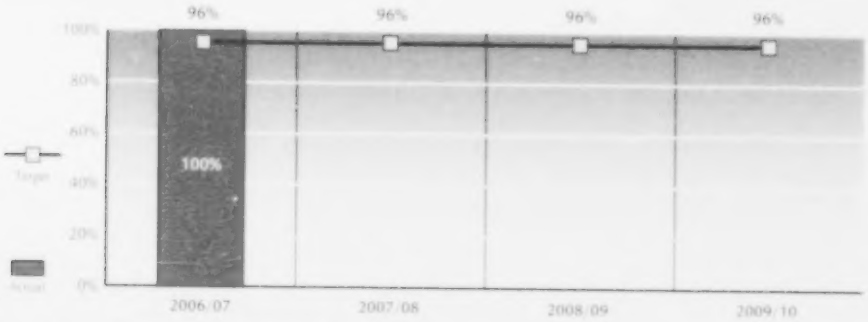
Performance measure 1

Percentage of legislators surveyed who believe that our audit work provides value to the public

Our first performance measure focuses on the views of MLAs as representatives of the public. As outlined in our current service plan, we revised the approach to reporting on how MLAs view our performance and now provide this single, more comprehensive, performance measure. This measure was designed to strategically align with our vision of being "a highly valued legislative audit office...." We believe this new measure provides a better overall indication of the extent to which we are achieving this vision (our ultimate outcome) and is more relevant to report than our previous six individual measures. Furthermore, we consider this measure – of the 10 we have – to be the single most important indicator of whether our Office is successful

Our result of 100% exceeded our target of 96%. The legislators surveyed all agreed that our work provided value to the public.

This result sets an exceptionally high standard for the Office to continue achieving. While our previous measures cannot be recalculated to provide an equivalent comparison with the new measure, we note that our MLA survey results have historically been good.



Data source: Annual survey of legislators serving on the Legislative Assembly's Select Standing Committees on Finance and Government Services and Public Accounts.

Description

This measure indicates the extent to which MLAs value our audit work. It also provides some indication that we are meeting their needs of having credible, relevant and timely information. The result represents the percentage of legislators surveyed who responded positively (greater than 3 on a 5-point scale ranging from strongly disagree (1) to strongly agree (5)) to the following question:

- Do you believe the Office provides value to the public in conducting its overall audit program?

Through this survey, MLAs also provided the Office with very important insight into what they believed were our strengths and weaknesses as a legislative audit office. For example, many legislators began our discussions by telling us how much they appreciated the new approach taken in our 2007/08 Business and Financial Plan (budget submission). They felt the budget options presented provided the information they needed to make an informed decision on our budget request. Areas they said we could improve on included attaining greater public awareness of our work and continuing our efforts to present our audit information better.

This measure also provides us a mechanism for monitoring if we are managing threats to our credibility, independence, objectivity and relevance, which are the corner stones of our work.

Looking ahead

We will continue to focus on ensuring a good working relationship with the two key committees; this includes conducting our annual MLA survey and holding briefings with the committee chairs. In addition, we will continue to look for ways to improve how we present our audit information and will consider ways to better inform the general public of our work.

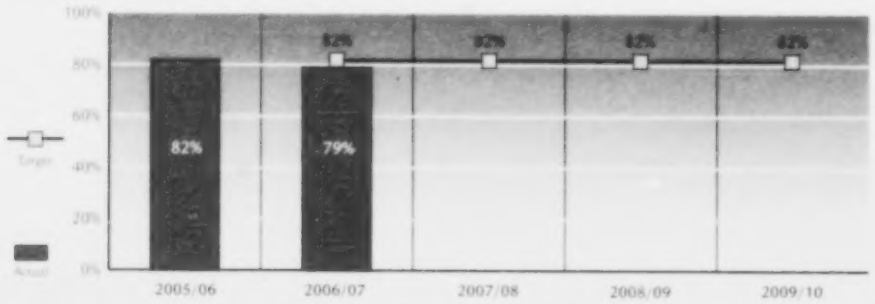
Performance measure 2

Percentage of the public surveyed who believe in the value of our audit work

The Office serves the public directly by issuing audit reports and opinions about the effectiveness and accountability of government and its organizations. In May 2006, on a trial basis, Ipsos-Reid surveyed the public on our behalf. This result (which we reported in 2005/06) indicated that 82% of the public believed that we provided a valuable service to the province. We have since adopted this survey as a new measure to indicate how strongly the public values our audit work – a measure we take to reflect how successfully we are providing the public with meaningful information.

We would like to maintain a high rating and have set 82% as our target for future years, consistent with the 82% baseline in 2005/06 until we have more experience with the measure.

Although this year's survey was conducted in May 2007, we report the results as applying to the previous year, reflecting the reports (see Exhibit 6) and issues discussed by the Office in that period. The public's view of the value of our service to the province has not changed significantly from the prior year with 79% of those surveyed indicating that they believe we provided a valuable service to the province.



Data source: A public opinion poll conducted by telephone by Ipsos-Reid in May 2007

Description

During an annual public opinion poll conducted by Ipsos-Reid the following question is included:

"The Office of the Auditor General of BC helps to hold government accountable, and issues independent, public reports on how well government manages its finances, its performance, and specific government programs and services. An example includes its audit opinion on the annual financial statements issued by the Province. Knowing this, how would you rate the value of the service that the Office of the Auditor General of BC provides to British Columbians? Would you say they provide:

- A very valuable service
- A somewhat valuable service
- Not a very valuable service
- Not a valuable service at all"

The percentage of positive replies (top two responses) provides the results.

Looking ahead

As described under performance measure 1, we will consider ways to better inform the public of our work.

Performance measure 3

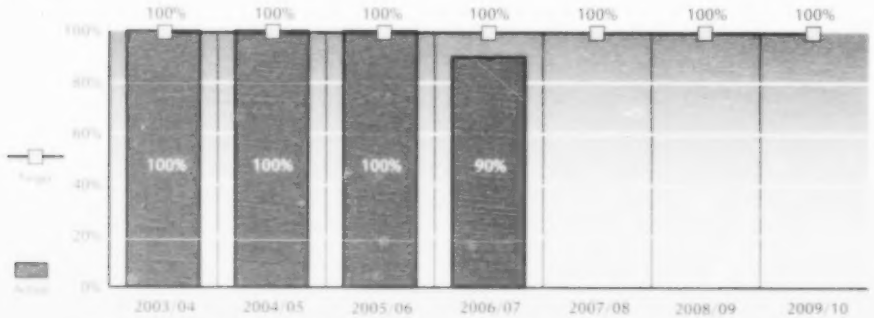
Percentage of recommendations endorsed by the Select Standing Committee on Public Accounts (PAC)

Our third measure focuses on whether MLAs endorse the recommendations we make in our reports. We have expanded this measure from prior years to include all audit reports from our three lines of business and not just our performance audit work. During 2006/07, the PAC reviewed five of our reports, which contained a total of 90 recommendations. The PAC endorsed 81 (90%) of these. The reports reviewed were:

- *2005/06 – Managing PharmaCare: Slow Progress Toward Cost-Effective Drug Use and a Sustainable Program*
- *2006/07 – The 2010 Olympic and Paralympic Winter Games: Review of Estimates Related to the Province's Commitments*
- *2005/06 – Government's Corporate Accounting System, Part 1*
- *2006/07 Government's Corporate Accounting System, Part 2*
- *2006/07 – Audit Committees: Doing the Right Things*

Two recommendations contained in our report *Audit Committees: Doing the Right Things* were not fully endorsed by the PAC but rather were accepted with an amendment noting that "the government has outlined where some exceptions may be necessary."

In addition, the seven recommendations contained in our report *The 2010 Olympic and Paralympic Winter Games: Review of Estimates Related to the Province's Commitments* were not endorsed by the PAC. In its decision, the committee noted that while it reached no conclusion, "the evidence presented by OAG staff and the government witnesses during our inquiry helped to clarify the complexity of undertaking the 2010 Games."



Data source: The February 2007 PAC report to the House for the 2nd Session of the 38th Parliament and the Report of Proceedings (Hansard) Select Standing Committee on Public Accounts Monday, March 5, 2007, Issue No. 10 for the 3rd Session, 38th Parliament. Data for 2004/05 and 2005/06 was updated to include the recommendations in all reports reviewed by the PAC and not just risk (i.e. performance) audits as previously reported. The percentage endorsed remained unchanged.

Description

Each of our reports is referred to the PAC for review and we make formal presentations to the committee on our findings and recommendations. Endorsement of our audit recommendations by the PAC is a key measure of legislators' support of the Office's work.

Looking ahead

Although our target is to have 100% of our recommendations endorsed by the PAC, it is the committee's prerogative to do so or not. We understand that some of our reports may be more controversial than others, which has the potential to result in less than a full endorsement of our recommendations by the PAC.

Performance measure 4

Percentage of recommendations implemented

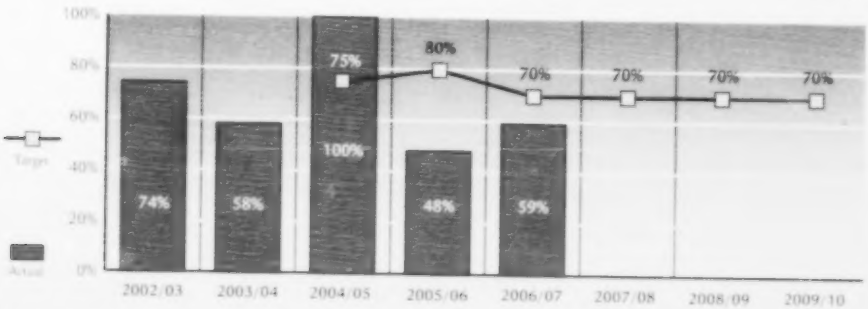
We have changed our fourth performance measure to encompass all our lines of business rather than focusing only on the recommendations made in our performance audits, as did our original measure. The change to this more comprehensive measure occurred in February, 2007. However, because of the timing of our financial statement audit and reporting cycle, the data is not complete enough at this time to allow us to report those results.

For 2006/07 we issued a performance audit follow-up report to our:

"2004/05 Report 2: In Sickness and in Health: Healthy Workplaces for British Columbia's Health Care Workers."

This report included 90 recommendations (15 for each of the six health authorities) of which 59% have been implemented. We also know from our work that the remaining recommendations are being acted upon.

The graph below reflects only the results of this performance audit follow-up.



Data Source: the results of our follow-up reviews. Follow-up of 2004/05 Report 2: In Sickness and in Health: Healthy Workplaces for British Columbia's Health Care Workers

Description

This measure provides us with an indication of the attention and support that management of government organizations give to our recommendations and consequently, an indicator of the recommendations' relevance. It reports on the percentage of recommendations that have been implemented on our:

- financial statement audits within one year; and
- other audits within two years.

Our target is less than 100% because we know there can be valid reasons why some of our recommendations are not implemented within one or two years. We have set our target at 70%, which is an average of the results over the four previous years based on our original measure.

The percentage represents those recommendations that have been fully and substantially implemented.

Looking ahead

We will be implementing a process for tracking the implementation of financial audit recommendations.

Our measure-based performance

Performance measure 5

Percentage of work plan commitments met

In our 2007/08–2009/10 Service Plan, we set out specific work plan expectations (e.g., four to six financial management reports per year[1]. This new measure will report on how well the Office has met its work plan expectations, by comparing how many reports/audit opinions were published by year-end with how many we planned to publish.

We developed this measure with the above approach in mind. However, specifically outlining our audit year work plan was not an approach we took in previous years. Therefore, for the 2006/07 reporting period, there were no specific work plan expectations established. As a result, we can report only on the actual number of reports and opinions issued, and not on a target. We issued 12 reports in 2006/07 (Exhibit 6), 49 financial statement audit opinions and other assurance reports, for example, enrollment at Langara College. In addition, audit opinions were provided on the performance reports of 3 organizations – Public Guardian and Trustee, British Columbia Assessment Authority and WorkSafe BC.

Exhibit 6 Summary of reports completed in 2006/07

Each of the following reports can be accessed through our website or requested in print form from our Office.

Strengthening Public Accountability: A Journey on a Road That Never Ends (Report 1 - April 2006)

The 2010 Olympic and Paralympic Winter Games: A Review of the Estimates Related to the Province's Commitments (Report 2 - September 2006)

Audit of Treaty Negotiations in British Columbia: An Assessment of the Effectiveness of British Columbia's Management and Administrative Processes (Report 3 - November 2006)

Province of British Columbia Audit Committees: Doing the Right Things (Report 4 - December 2006)

Audit of Government's Corporate Accounting System: Part 2 (Report 5 - December 2006)

Monitoring Government's Finances Province of British Columbia (Report 6 - December 2006)

Government's Post-secondary Expansion – 25,000 Seats by 2010 (Report - 7 November 2006)

Changing Course – A New Direction for British Columbia's Ferry System: A Review of the Transformation of BC Ferries (Report 8 - December 2006)

Seeking Best Practices in Financial Reporting: Report on the Province's 2005/06 Public Accounts (Report 9 - January 2007)

Follow-up of 2004/2005 Report 2: In Sickness and in Health: Healthy Workplaces for British Columbia's Health Care Workers (Report 10 - February 2007)

Infection Control: Essential for a Healthy British Columbia (Report 11 - March 2007)

Switching Tracks: A Review of the BC Rail Investment Partnership (Report 12 - March 2007)

Data source: Office of the Auditor General of British Columbia

Looking ahead

The target established for future years is that we will meet 80% of our work plan commitments as set out in our Service Plan for 2007/08–2009/10. The target is set less than 100% to allow us some flexibility to adjust the work plan in relation to priorities that may arise during the year. For example, an audit in the forest sector was started as a result of public interest and legislator concerns regarding forest worker safety.

Performance measure 6

Percentage of projects delivered within the planned timeframe

Sound management of our individual audit projects is important to achieving overall organizational efficiency. This measure indicates how well we have been able to keep our projects on time. In 2005/06, we did not meet our target and again in 2006/07 we have failed to meet our target. In 2006/07, we established a staff team to assist the Office in achieving improvements in our project management by creating and promoting a project management framework and culture. The team has set itself five objectives:

1. Build and empower a team of project management experts and role models.
2. Implement approved project management processes and systems.
3. Be an ongoing resource to staff to help them effectively manage their projects.
4. Monitor the state of project management competency and culture in the Office.
5. Continually improve project management process and tools as needed.

This team only began its work in late 2006, thus we anticipate improvements in our performance as a result of this initiative will begin to show in 2007/08.

Measure 6. % of projects delivered within the planned timeframe	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Target	–	–	–	85%	85%	85%	85%	85%
Actual	75%	80%	90%	82%	77%			

Data source: Our internal management information system. The usefulness of this measure is limited by its inability to provide weighting. For example, missing the deadline on a smaller audit counts the same as for a major audit.

Description
We define "on time" as meeting or beating the planned reporting date in the approved audit plan.

This measure is presented as an overall rating for all three lines of business. However, there are significant differences across the lines of business. For example, 97% of the financial audit work was completed on time compared to 40% of our accountability reporting work and 11% of our performance audit work.

The most challenging projects to manage continue to be our performance audits. Each of these projects is unique in terms of subject matter and resource requirements, which makes it difficult to predict the amount of time or resources necessary. As well, these audits tend to be more controversial than our other types of audits and, in some ways, they are more complicated to complete. All these challenges affect our ability to keep these audits on time and on budget.

While it is important for us to publish our reports on a timely basis, it is also important for our credibility to be accurate in our assessments. This consideration often results in our non-financial audits taking longer than expected.

Looking ahead

For this measure to better reflect our performance, we need to find ways of being more realistic in our planning of non-financial audits, and we need to be more sophisticated in identifying and capturing legitimate changes in timelines as audits progress. The work of the project management staff team should help do this. We are also examining our processes for carrying out performance audits to see if there are efficiencies we could implement.

Performance measure 7

Percentage of projects delivered within the planned budget

This measure (as with measure 6 above) indicates how well we are able to manage our projects and, for this particular measure, complete them within budget. Historically, our results have ranged by year from 39% to 60%. In response, as discussed above, we have put in processes to help us improve our project management. However, it takes time for new processes and practices to have an effect. We therefore reduced our 2006/07 target to 60%, with a planned gradual 5% increase over the following years. Our 2006/07 result of 40% of projects delivered within budget is disappointing and continues the downward trend of 2004/05. However, we anticipate the steps we are taking will reverse the trend in 2007/08.

Measure 7. % of projects delivered within the planned budget	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Target	-	-	-	85%	60%	65%	70%	75%
Actual	60%	39%	55%	46%	40%			

Data source: Our internal management information system. The usefulness of this measure is limited by its inability to provide weighting. For example, exceeding the budget on a major audit counts the same as for a smaller audit.

Description

Completing projects within budget reflects accurate planning and effective use of resources. We define "on budget" as being within 5% of the budget outlined in the approved audit plan.

Similar to measure #6, we report an office-wide result for on budget. However, again there are differences across our lines of business regarding the percentage of projects being delivered on budget, although they are not as striking as the on time results. 47% of financial audit projects were on budget compared to 40% of the performance reporting work and 11% of the performance audit work.

Here, especially for our financial audit work, our ability to recruit and retain staff has a significant impact. Our statutory reporting requirements are such that our financial work must be completed on time and thus to ensure this we hire additional contract staff, or move performance staff within a sector, which then has an effect on that staffs' ability to complete their projects on time.

Looking ahead

The work of our staff team focused on creating a culture of project management and leading the Office to a level of excellence in project management (discussed above) should help us achieve more sophisticated measurement and better performance in this area. In addition to increasing our focus on project management, we will also be conducting a review of each phase of our performance audit process to better understand what it is that may be contributing to delays, and what needs to be done to alleviate any problems.

Our organizational restructuring to focus on our lines of business should also provide more staff continuity for our work.

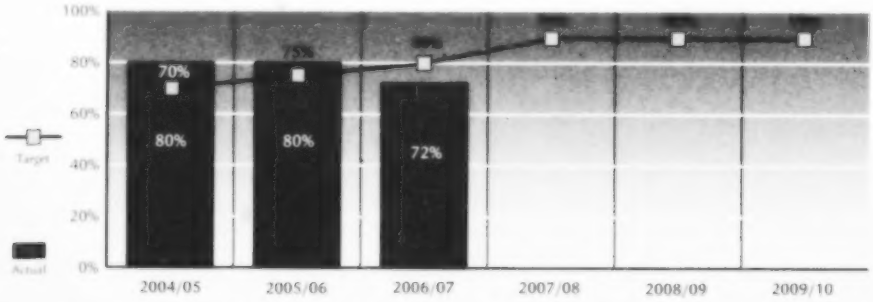
Performance measure 8

Percentage of audited organizations satisfied with how we conducted our work

This measure relates to our professionalism in carrying out our audits. We now use four questions (previously we asked two questions) that best relate to our external focus of our operational values to calculate this measure. Our results indicate that in 2006/07 the organizations we audited were less satisfied than in prior years with how we conducted our work. The rating of 72% (based on a response rate of 55%) is below our target of 80%.

The change in our methodology required a restatement of our results for 2004/05 and 2005/06, which produced improved scores of 80% in both years – exceeding our previous targets of 70 and 75%, respectively. In 2004/05, the response rate was 59% and in 2005/06 it was 61%.

Analysis of the results showed that if we included ratings at the mid-point on the scale (that is, satisfactory) the score changes significantly, to 93% satisfaction with how we conducted our work.



Data source: Survey of organizations at the completion of each assurance engagement. The responses to the four questions that correspond with the key measure are tabulated and aggregated, resulting in a percentage score. Both 2004/05 and 2005/06 have been recalculated based on these four questions. In those previous years, two question that correspond with the key measure were tabulated, aggregated and a percentage score calculated.

Description

Our corporate values highlight the importance of maintaining independence, objectivity, integrity and open communication, and of being service-focused in conducting our audits and assessments. These elements are also outlined in our operational standards of service.

After each major audit engagement, the Office conducts a survey of the key individuals within the audited organization. We have compiled the survey answers from a 5-point rating scale (very good to very poor) used in relation to the following four statements:

- The auditors exhibited an objective attitude while conducting the audit.
- The findings of the audit were reported in an objective and fair manner.
- The auditors maintained professional relations with the staff of your organization.
- The auditors maintained open communications during the course of the audit.

We report the percentage of those rating our performance as good or very good to these statements.

Looking ahead

The audit teams will review and discuss their individual results, consulting with the audited organizations as required to better understand the results and to incorporate lessons learned into the next audit cycle. This approach allows for continuous improvements and will, we hope, raise our overall performance on this measure in 2007/08.

Performance measure 9

Professional quality control standards met

This measure focuses on whether our audit processes meet the Canadian Institute of Chartered Accountants' (CICA) new quality control standards. These are significant new standards that are aimed at improving the quality of auditing work across the country. Our expectation was that we would have been "fully compliant" with CICA quality control standards by the end of 2006/07. However, while we have not met that target – remaining still "substantially compliant" – we have made gains in some key areas (e.g., introducing a new staff performance evaluation system). All of our policies and the vast majority of our processes are in place and we fall short in only a few areas. (For example, we maintain personnel files, but not yet fully in accordance with the quality control policies. The most significant shortfall – the absence of a formal professional development curriculum – is currently being dealt with and a curriculum should be in place in 2008). Although this measure does not differentiate between the quality control processes at the project level and at the organizational level, it should be noted that we are fully compliant in our practices at the project level – it is at the organizational level where we still have a little work to do.

We will continue to dedicate the resources needed to be fully compliant in 2007/08.

Measure	2003/04 Actual	2004/05 Actual	2005/06 Target	2005/06 Actual	2006/07 Target	2006/07 Actual	2007/08 Target
9. Professional quality control standards met. (Previously: Level of compliance with CICA quality control standards)	Interpreting new professional standards	Self-assessment completed and practices still under development	Fully compliant	Substantially compliant	Fully compliant	Substantially compliant	Fully compliant

Data source: Self-assessment of the current quality control processes carried out by our Professional Practices group.

Description

The Canadian Institute of Chartered Accountants (CICA) issued new quality control standards effective December 1, 2005. These standards defined higher expectations in the conduct of audit and assurance engagements. In prior years, we reported the results of a general self-assessment to determine whether we were in compliance with these standards. Although quality control has always been an important component of our internal processes, the new standards more specifically define higher expectations for firms and for individual assurance engagements.

Looking ahead

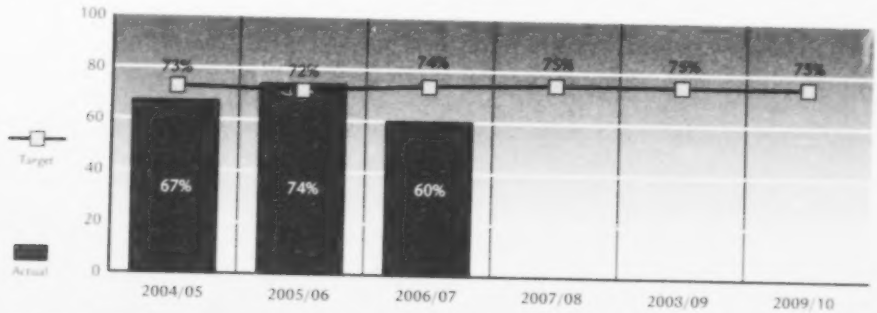
The results of this performance measure are, as in the past, reported based on a self-assessment. However, it is our intention to continue to have periodic external reviews conducted by other legislative audit offices, as well as introduce detailed internal file inspections to provide a more robust assessment of the extent to which we are meeting the standard. These new processes will be introduced in 2007/08. As accounting and auditing standards continue to undergo unprecedented public scrutiny and change, we will continue to integrate the appropriate changes into our work practices. Also, as in the past, the Institute of Chartered Accountants of British Columbia performs cyclical practice reviews of our Office to determine compliance with professional standards. The most recent review was conducted in 2005.

In addition, we will continue to stay up-to-date with developments in the accounting and auditing profession through our work at the national level with the Canadian Institute of Chartered Accountants and with our counterparts across the country.

Performance measure 10

Percentage of staff motivated and inspired ("engaged") by their work

Much of our Office's success depends on our people. Salaries and benefits account for about 70% of our expenditures. This measure provides a general, rather than concrete, sense of how engaged employees are feeling. This year's results of 60% are well below our target of 74%. This indicates that we were not yet successful in building on the momentum and gains made in 2005/06. Although the results were disappointing, they were somewhat understandable given the uncertainty within our work environment including the status of the Auditor General's position and staffing and salary pressures. Over the coming months, we will be discussing the results of the survey and holding focus groups with staff to ensure that we clearly understand the issues that contributed to the decreased rating.



Data source: An internal work environment survey, which allows us to understand the overall level of employee engagement. In 2006/07, we conducted a mini survey, focused only on the six questions that provide the overall "engaged" score. The data for 2004/05 and 2005/06 was recalculated to use the average of the six questions comparable with those for 2006/07.

Description

"Engaged" employees are productive and committed. High employee engagement is a predictor of a high-performing organization. This measure shows the percentage of our employees, responding to our internal work environment survey, who said they "strongly agree" or "agree" with the following statements.

- This sector really inspires me to do my best work. (2004/05 and 2005/06)
- This portfolio really inspires me to do my best work. (2006/07)
- The work I do makes an important contribution to the Office's success.
- I would highly recommend this Office to a friend seeking employment.
- I think this Office is a great place to work.
- This Office deserves my loyalty.
- I am proud to be part of this Office.

Looking ahead

We will continue to promote a positive work environment that motivates and supports our staff members in doing their best work. Specifically, we will continue to:

- work with staff to understand and address issues;
- provide staff with interesting and challenging work;
- support the growth and development of our staff;
- track our turnover and assess the reasons behind it;
- measure the extent to which staff are "engaged" in the work of the Office and act on the survey results; and
- provide appropriate resources for our audit support functions.

Discussion and analysis

The discussion and analysis of our financial performance should be read in conjunction with our financial statements and related notes.

Highlights

The Office is funded through a voted appropriation recommended by the Select Standing Committee on Finance and Government Services. This appropriation funds work across our three lines of business: financial statement audits, performance audits and accountability reporting. Our funding also provides the operational support we need to carry out our work efficiently, effectively and to the highest standards of quality and professionalism.

Our voted appropriation is net of the recoveries we expect to receive through fee-for-service engagements for work carried out with respect to provincial public sector organizations. In 2006/07, our voted appropriation was $8.57 million and our planned recoveries were $1.94 million, for total funding of $10.51 million.

We plan our expenditures to align with our goals and our work plan. If we receive recoveries beyond our planned level, or if our actual expenditures are less than planned, the excess of revenue over expenses is reported as unused appropriation. Last year, our total expenditures were $10.71 million and our unused appropriation was $291,777, resulting primarily from unanticipated recoveries.

Exhibit 7 shows the actual allocation of expenditures across our goals for the year. No specific resources were dedicated to Goal 4, effective public sector governance, because the outcomes related to this goal are delivered within the first three goals.

Exhibit 7 Percent allocation of expenditures across goals, 2006/07

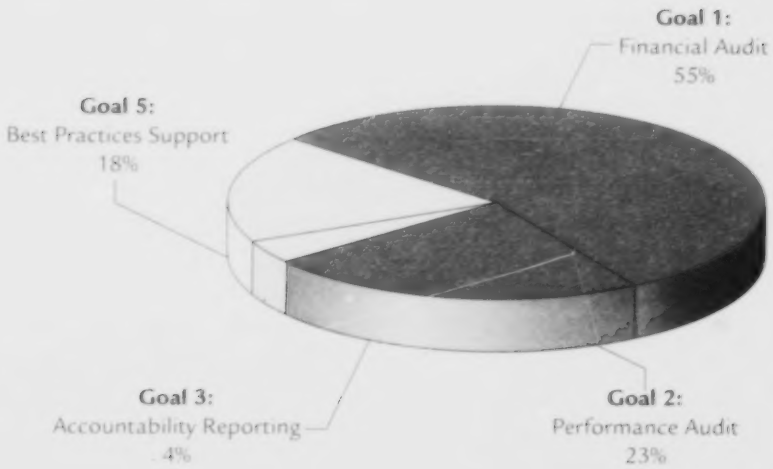


Exhibit 8 shows the breakdown of expenditures across these goals. Salaries and benefits of employees directly supporting each of the goals are shown in the first column. Other costs directly related to the work performed within each goal include professional services, travel and specific project-related training. The overhead allocation attributed to each goal includes expenses such as rent, supplies, professional membership dues, information technology costs, and core training.

Exhibit 8 Distribution of the Office's expenditures across goals
($ thousands)

	Direct Salaries and Benefits	*Other Audit Costs*	*Overhead Allocation*	*Total Expenditures*	*%*
Goal 1 Financial Audit	3,603	1,129	1,118	5,850	55
Goal 2 Performance Audit	1,540	253	681	2,474	23
Goal 3 Accountability Reporting	317	52	66	435	4
Goal 5 Best Practices Support	1,378	–	577	1,955	18
Total	$ 6,838	$ 1,434	$ 2,442	$10,714	100

Actual results compared with planned and prior year's results

Salaries and professional services

In 2006/07, our total operating expenses were $10.71 million of which $8.78 million (82% of total expenses) related to salaries, benefits and professional services. Actual spending was $120,000 over planned spending and $400,000 over that of the prior year. Exhibit 9 shows comparative figures for planned, actual and prior year spending for salaries, employee benefits and professional services.

Exhibit 9 **Comparison of the Office's planned, actual and prior year salary and professional services expenses *($ thousands)***

	Fiscal 2006/07 Planned	*Fiscal 2006/07 Actual*	*Variance Planned to Actual*	*Fiscal 2005/06 Actual*	*Variance 2006/07 to 2005/06*	*Fiscal 2007/08 Planned*
Salaries	5,920	5,961	(41)	5,810	(151)	7,357
Employee benefits	1,575	1,569	6	1,425	(144)	1,725
Professional services	1,165	1,250	(85)	1,138	(112)	1,515
	$ 8,660	$ 8,780	$ (120)	$ 8,373	$ (407)	$10,597

In 2006/07, our Office planned to use 89 full-time equivalent positions (FTEs) and our planned salary and benefits expense projected this. However, we did not anticipate the expenses related to the provincial government's new negotiated framework for salaries and benefits that occurred in March 2006, resulting in a 2.5% salary increase for excluded employees and a 3% increase for our Schedule A employees. The actual expenditures in 2006/07 reflect use of 83 FTEs at the new salary rate that came into effect on April 1, 2006. The salary and benefit costs associated with the 89 planned FTEs at the new salary and benefit levels would have required an additional $166,000. This amount was to be centrally funded by government. However, this funding was not required as a result of attrition, lags in hiring and maternity leaves throughout the year. Our appropriation for 2007/08 includes required levels of funding to sustain the 2006/07 salary increase and support the salary increase effective April 1, 2007.

The employee benefit rate for the year was planned to be 25.60% of salaries. In April 2006, government reduced the benefit rate to 24.62%. This reduction was made when government announced changes in vacation and leave entitlement responsibility, which now requires that current-year leave expense be funded through appropriations of government organizations. The reduction in the benefit rate was meant to partially offset this expense and others associated with the salary

increases. In 2006/07, our current-year leave expense was $136,497 and is included within the actual salary and benefits expenses.

Actual salaries and benefits increased by about $300,000 over last year – half of this is attributable to salary increases and the other half to expenses related to employee benefits. Much of the change in the salary expense is related to the current-year leave expense, as mentioned above. Employee benefits, which include maternity leaves, also increased as a result of four staff members taking maternity or parental leave throughout the year.

The expenses and variance in salaries and benefits should be considered in conjunction with those of professional services. We use the services of outside professionals to augment our financial audit staff during peak periods and for advisory or consulting services on our performance audit work. Professional services are also used when specific expertise is required to support corporate activities. Contractor costs were also greater than planned, because market demand for accounting professionals continues to create upward pressure on contractor rates. Exhibit 10 outlines professional service expenditures we used to support or conduct our audit work and our corporate requirements.

Exhibit 10 **Distribution of professional services expenditures across audit work and corporate activities *($ thousands)***

Audit work	Fees to audit firms	$ 547
	Financial audit contractors	376
	Performance audit consultants	96
	Audit report editing	22
		1,041
Corporate activities	Training	52
	Human resources	46
	Finance and audit	43
	Information technology	37
	Legal Services	26
	Corporate report editing	5
		209
Total professional services		$ 1,250

Included in the professional services expenditures are fees we pay to various private-sector auditing firms to perform audit work on our behalf. In 2006/07, these fees were close to $550,000, approximately $100,000 higher than for last year. These expenses, however, are "flow through," meaning they are directly recovered from the organizations we audit and therefore have no net effect on our budget. The increase over last year resulted partly because of the increased work required to meet new auditing standards and partly because of the change in mix of the financial statement audit coverage plan.

Office and support expenses

In 2006/07, we spent $1.93 million (18% of our total operating expenses of $10.71 million) on the office and support infrastructure required to carry out the work of the Office. Total office and support expenses were $89,000 over planned spending and $47,000 over the prior year spending. Exhibit 11 shows the major elements of these expenses and provides a comparison of actual over planned and prior year expenditures.

Exhibit 11 **Comparison of the Office's planned, actual and prior year office and support expenses *($ thousands)***

	Fiscal 2006/07 Planned	*Fiscal 2006/07 Actual*	*Variance Planned to Actual*	*Fiscal 2005/06 Actual*	*Variance 2006/07 to 2005/06*	*Fiscal 2007/08 Planned*
Rent	550	526	24	515	(11)	651
Travel	320	361	(41)	352	(9)	480
Information technology	275	305	(30)	320	15	305
Professional dues and training	245	233	12	227	(6)	223
Office expenses	112	202	(90)	205	3	189
Amortization	160	122	38	123	1	122
Report publications	120	122	(2)	82	(40)	120
Research grants	63	63	-	63	-	63
	$ 1,845	$ 1,934	$ (89)	$ 1,887	$ (47)	$ 2,153

Monthly rental payments are governed by a lease agreement with Accommodation and Real Estate Services (ARES), part of the Ministry of Labour and Citizens' Services. Our monthly rental expense in 2006/07 was $40,818, as well as an annual allocation charge of $21,600. Tenant improvements of $20,000 had been

planned, but uncertainty around space needs in light of potential growth resulted in us postponing spending plans until a further assessment of capacity requirements could be made.

Travel expenses incurred were over the planned budget by $41,000 as a result of increased accommodation and transportation costs and the change in our year-over-year work plan. Travel expenses fluctuate with the timing and nature of our projects and with unanticipated projects undertaken. Travel costs for 2006/07 are in line with those of the prior year.

Information technology expenses were $30,000 over what was planned. Much of this related to the upgrading of our time reporting and project management system. Also we implemented the Windows XP operating system and upgraded to Microsoft Office 2003. Information technology expenditures in 2006/07 were consistent with those made last year.

Professional dues and training expenses relate to membership fees for our professional staff and training required by our employees to allow them to remain current in their respective fields of expertise. Although our actual spending on professional dues and training in 2006/07 was slightly under that planned, expenditures overall were consistent with those of the prior year.

Office expenses include those incurred for employment advertising, minor furniture purchases, training or meeting venues, temporary office services, office supplies, courier service, library resources, and office equipment leases. In 2006/07, our office expenses were over budget by $90,000. One reason was our need to launch a more aggressive recruitment strategy, which resulted in increased advertising expenses. Total office expenses, however, were in line with those of last year.

Actual amortization expenses were $38,000 below what we budgeted. In 2003, the government policies of capitalization changed. Before this, all furniture and information technology purchases were capitalized. Now, only furniture over $1,000 is capitalized. And, with respect to information technology purchases, only personal computer hardware and software with a value greater than $1,000 and only network hardware and software over $10,000 are capitalized. The effect is that we will continue to see our amortization expense decline, because much of our purchase needs fall below these capitalization thresholds.

Report publication expenses for 2006/07 related to all desktop publishing and printing costs associated with the publication of 12 audit reports and four corporate reports. This increase in spending over last year is directly related to the difference in the number of reports produced and the shift to outsourcing report layout and design.

Our net asset balance for the year ended March 31, 2007, was $0.37 million, an increase of $70,000 over last year. This increase reflects the changes in our non-financial assets. Our capital assets increased by $60,000 and our prepaid expenses (primarily for air travel) increased by $10,000 (see Statement of Financial Position).

Funding for our operation

For 2006/07, our planned sources of funding totaled $10.51 million: $1.94 million from fee-for-services recoveries and $8.57 million from our voted appropriation. This was a $895,000 increase in our voted appropriation over the previous year's appropriation of $7.67 million. Exhibit 12 shows our planned, actual and prior year sources of funding for our operation.

Exhibit 12 **Comparison of the Office's planned, actual and prior year sources of funding** ***($ thousands)***

	Fiscal 2006/07 Planned	*Fiscal 2006/07 Actual*	*Variance Planned to Actual*	*Fiscal 2005/06 Actual*	*Variance 2006/07 to 2005/06*	*Fiscal 2007/08 Planned*
Appropriation	8,565	8,565	–	7,670	(895)	10,350
Fee-for-service recoveries	1,940	2,441	501	2,588	147	2,400
Other amounts	–	–	–	275	275	
	10,505	11,006	501	10,533	(473)	12,750
Less operating expenses	(10,505)	(10,714)	(209)	(10,259)	455	–
Unused appropriation	$ –	$ 292	$ 292	$ 274	$ (18)	$ –

Our voted appropriation for 2006/07, as approved by the Legislative Assembly, was $8.47 million. Then, in January 2006, our appropriation was increased by $95,000 to $8.57 million to compensate for anticipated budget pressures associated with the shift in ownership and responsibility for vacation and leave entitlement liability. Effective April 1, 2006, the Office became responsible for funding current-year leave expense from its appropriation.

The amount the Office recovers each year from fee-for-service work varies depending on the number and size of the engagements. Recoveries exceeded our plan by $0.50 million, primarily as a result of (1) unanticipated recoveries from our review of forest worker safety, (2) an increase in recoveries related to additional work required to meet new auditing standards, and (3) shifts in timing of the work

conducted during the year. A large portion of recoveries – about $0.55 million – flows back to private-sector auditing firms contracted to carry out work on behalf of the Office. Flow-through recoveries increased by $100,000 over last year as a result of additional work performed by contracted firms and related increases in travel expenses.

Our unused appropriation is the difference between our total available funding and our total operating expenses. In 2006/07, the unused appropriation was $0.30 million: the additional $0.50 million in fee-for-service recoveries we received, offset by the $40,000 in additional spending on salaries and benefits, the $80,000 increase in expenditures on professional services, and the $80,000 increase in office and support expenses. This amount is similar to the unused appropriation of last year. Any unused appropriation cannot be carried forward for use in following years.

Assessment of trends

Financial trends for the past six years, along with our 2007/08 planned expenditures, are shown in Exhibit 13.

For the 2006/07 fiscal year, we received an increase in our appropriation of $895,000, enabling us to manage pressures of rising operating and salary expenses. Although our appropriation has gradually returned to earlier levels, both increases in salary and benefits costs and inflationary pressures have not allowed us to return to prior levels of staffing.

Salaries and benefits and professional services continue to be our largest expense – 82% of total operating costs. Over the next two years, our salary and associated benefits will increase by approximately 2.5% per year as a result of the government negotiated framework. Furthermore, the implementation of a new management classification and compensation framework introduced across the BC public service will provide us with some flexibility in administering compensation as we face the ongoing challenge of attracting and retaining a qualified, professional work force.

In our 2007/08 Business and Financial Plan, we presented a five-year vision for expanding our work and developing our capacity to do that. For 2007/08, our approved appropriation of $12.75 million enables us to build our capacity to 99 FTEs and to provide the infrastructure required to support this growth. Our five-year plan calls for gradual year-over-year expansion. However, the market for qualified accounting professionals is very competitive, so attracting and retaining the necessary staff to allow us to fully deliver our planned work will be a big challenge.

Fee-for-service recoveries will likely continue to fluctuate as a result of the mix of work we perform and the unanticipated work we conduct during the year.

Exhibit 13 Year-over-year financial trends in the Office, 2002-2008 *($ thousands)*

	Planned	Actuals for fiscal year ended March 31						Line items (as a Percent)					
	2008 $	2007 $	2006 $	2005 $	2004 $	2003 $	2002 $	2007 %	2006 %	2005 %	2004 %	2003 %	2002 %
Salaries and professional services								As a % of total operating expenses					
Salaries	7,357	5,961	5,810	5,498	6,131	5,892	5,670	55.7	56.7	59.2	60.4	59.9	61.4
Employee benefits	1,725	1,569	1,425	1,307	1,468	1,325	1,083	14.6	13.9	14.1	14.5	13.4	11.7
Professional services	1,515	1,250	1,138	902	1,007	931	903	11.7	11.1	9.7	9.9	9.5	9.8
	10,597	8,780	8,373	7,707	8,606	8,148	7,656	82.0	81.7	83.0	84.8	82.8	82.9
Office and support expenses													
Rent	651	526	514	457	443	435	438	4.9	5.0	4.9	4.4	4.4	4.7
Travel	480	361	352	227	232	340	298	3.4	3.4	2.5	2.3	3.5	3.2
Information technology	305	305	320	220	219	245	131	2.8	3.1	2.4	2.2	2.5	1.4
Professional dues and training	223	233	227	186	206	204	163	2.2	2.2	2.0	2.0	2.1	1.8
Office expenses	189	202	205	190	136	143	245	1.9	2.0	2.0	1.3	1.4	2.7
Amortization	122	122	123	148	187	201	197	1.1	1.2	1.6	1.8	2.0	2.1
Report publications	120	122	82	82	59	65	42	1.1	0.8	0.9	0.6	0.7	0.5
Research grants	63	63	63	63	63	61	61	0.6	0.6	0.7	0.6	0.6	0.7
Total operating expenses	12,750	10,714	10,259	9,280	10,151	9,842	9,231	100.0	100.0	100.0	100.0	100.0	100.0
Fee-for-service recoveries	(2,400)	(2,441)	(2,588)	(2,293)	(2,263)	(2,008)	(1,788)						
Net cost of operations	10,350	8,273	7,671	6,987	7,888	7,834	7,443						
Appropriation and other amounts	10,350	8,565	7,944	7,069	8,253	8,525	8,029						
Unused appropriation	-	(292)	(273)	(82)	(365)	(691)	(586)						
Average FTE usage	99.0	83.0	83.2	81.4	88.0	88.0	88.0						

Office of the Auditor General of British Columbia
Statement of Management Responsibility

Our financial statements

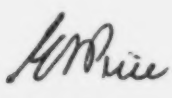
We are responsible for ensuring that the financial statements and other financial information in this annual report are complete and accurate.

We have prepared the financial statements in accordance with Canadian generally accepted accounting principles.

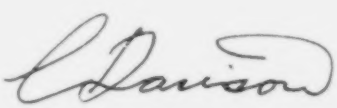
We have developed and maintain systems of internal control that give reasonable assurance that our Office has:

- operated within its authorized limits;
- safeguarded assets; and
- kept complete and accurate financial records.

The Select Standing Committee on Finance and Government Services of the Legislative Assembly appointed Grant Thornton LLP, Chartered Accountants, to audit the accounts of our Office for the year ended March 31, 2007. Our auditors report the results of their audit to the Speaker of the Legislative Assembly. In their report, the auditors outline the scope of their audit and give their opinion on our financial statements.



Errol Price, CA
Acting Auditor General



Christine Davison, MBA
Senior Financial Officer

May 11, 2007

Grant Thornton

Grant Thornton LLP
Chartered Accountants
Management Consultants

Auditors' Report

To the Speaker
The Legislative Assembly, Province of British Columbia

We have audited the statement of financial position of the Office of the Auditor General of British Columbia as at March 31, 2007 and the statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General as at March 31, 2007 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

The budget information presented in the statements of operations and changes in net assets is unaudited and should not be considered as part of the financial statements on which we have expressed our opinion.

Grant Thornton LLP

Victoria, Canada
May 11, 2007

Grant Thornton LLP
Chartered Accountants

Office of the Auditor General of British Columbia
Statement of Financial Position
As at March 31, 2007

	2007	2006
Financial Assets		
Audit fees receivable	$ 1,175,948	$ 1,259,638
Accounts receivable	9,952	41,171
Due from Consolidated Revenue Fund	–	93,273
	1,185,900	1,394,082
Non-Financial Assets		
Prepaid expenses	61,084	51,177
Capital assets (Note 3)	305,794	245,906
	366,878	297,083
	$ 1,552,778	$ 1,691,165
Liabilities		
Accounts payable	$ 394,760	$ 796,521
Accrued leave (Note 4)	–	597,561
Due to Consolidated Revenue Fund	791,140	–
	1,185,900	1,394,082
Net Assets	366,878	297,083
	$ 1,552,778	$ 1,691,165

The accompanying notes are part of the financial statements.

Approved by:

Errol Price, CA
Acting Auditor General

Christine Davison, MBA
Senior Financial Officer

Office of the Auditor General of British Columbia
Statement of Operations
For the year ended March 31, 2007

	2007		2006
	Planned	Actual	Actual
Salaries and professional services			
Salaries	$ 5,920,000	$ 5,960,814	$ 5,810,278
Employee benefits (Note 6)	1,575,000	1,569,256	1,425,055
Professional services	1,165,000	1,250,126	1,137,443
	8,660,000	8,780,196	8,372,776
Office and support expenses			
Rent	550,000	525,925	514,455
Travel	320,000	360,547	352,273
Information technology	275,000	305,307	320,000
Professional dues and training	245,000	232,576	227,089
Office expenses	112,000	202,452	205,433
Amortization	160,000	122,132	122,584
Report publications	120,000	121,691	81,768
Research grants	63,000	63,000	63,000
Total operating expenses	10,505,000	10,713,826	10,259,378
Fee-for-service recoveries	(1,940,000)	(2,440,603)	(2,587,993)
Net cost of operations	$ 8,565,000	$ 8,273,223	$ 7,671,385

The accompanying notes are part of the financial statements.

Office of the Auditor General of British Columbia
Statement of Changes in Net Assets
For the year ended March 31, 2007

	2007	2006
Net assets, beginning of year	$ 297,083	$ 301,892
Net cost of operations	(8,273,223)	(7,671,385)
Net appropriation used (Note 5)	8,273,223	7,671,385
Acquisition of capital assets (Note 5)	182,020	118,613
Loss on disposal of capital assets	-	129
Amortization	(122,132)	(122,584)
Increase (decrease) in prepaid expenses	9,907	(709)
Net assets, end of year (Note 9)	$ 366,878	$ 297,083

The accompanying notes are part of the financial statements.

Office of the Auditor General of British Columbia
Notes to Financial Statements
For the year ended March 31, 2007

1. Nature of Operations

The Auditor General is an Officer of the Legislature of British Columbia, appointed for a six-year term by the Legislative Assembly. Non-partisan, objective and independent of the government of the day, he reports impartial assessments of government accountability and performance to the Assembly.

The Auditor General's mandate is established by the Auditor General Act. The Act requires the Auditor General to audit the government's annual Summary Financial Statements, and allows the Auditor General to be appointed as the financial statement auditor of any government organization or trust fund. The Act also allows the Auditor General to carry out examinations focusing, among other things, on whether government or a government organization is operating economically, efficiently and effectively; and whether the accountability information provided to the Legislative Assembly by the government or a government organization with respect to the results of its programs is adequate.

Funding for the operation of the Office of the Auditor General (the Office) comes from a voted appropriation (Vote 2) of the Legislative Assembly. The vote provides separately for operating expenses and capital acquisitions. The appropriation is net of the recoveries the Office expects to receive through fee-for-service engagements. The net cost of operations reflects the portion of the appropriation used to fund the Office's operations. Any unused appropriation cannot be carried forward for use in subsequent years.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies.

a) Legislative appropriations

The Office is funded by the Legislative Assembly through annual appropriations. The legislative appropriation is reported directly in the Statement of Changes in Net Assets in the fiscal year for which it is approved by the Legislative Assembly and used by the Office.

b) Fee-for-service recoveries

Fee-for-service recoveries are recognized as revenue in the period in which the related work was performed.

c) Due to/from the Consolidated Revenue Fund

The financial transactions of the Office are processed through the Consolidated Revenue Fund of the Government of British Columbia. The "Due from the Consolidated Revenue Fund" balance represents amounts that the Office is entitled to draw from the Consolidated Revenue Fund, without further appropriations, in order to discharge its liabilities. The "Due to the Consolidated Revenue Fund" balance represents amounts that the Office is required to transfer to the fund, without further appropriation, that will be financed by its financial assets.

d) Capital Assets

Capital assets are recorded at historical cost less accumulated amortization. Amortization begins when the assets are put into use and is recorded on the straight-line method over the estimated useful lives of the assets as follows:

Computer hardware and software	3 years
Mainframe hardware and software	5 years
Furniture and equipment	5 years
Tenant improvements	lesser of 5 years or term of lease

e) Employee future benefits

i) Pension benefits

All eligible employees participate in a multi-employer defined benefit pension plan. Defined contribution plan accounting has been applied to the plan as the Office has insufficient information to apply defined benefit plan accounting. Accordingly, the Office's contributions are expensed in the year in which the services are rendered, and represent its total pension obligation.

ii) Other future benefits

Eligible employees are entitled to post-employment health care and other benefits as provided under terms of employment or collective agreements. The cost of these benefits is accrued as employees render the services necessary to earn them.

f) Measurement Uncertainty

These financial statements are prepared in accordance with Canadian generally accepted accounting principles, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Audit fees receivable and capital assets are the most significant items for which estimates are used. Actual results could differ significantly from those estimates. These estimates are reviewed annually, and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

g) Statement of Cash Flow

A statement of cash flow has not been included with these financial statements because it would not provide additional useful information.

3. Capital Assets

	2007			2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware and software	$ 391,396	$ (215,691)	$175,705	$147,525
Mainframe hardware and software	78,950	(27,258)	51,692	27,706
Furniture and equipment	131,061	(52,664)	78,397	70,675
Tenant improvements	778,563	(778,563)	-	-
	$1,379,970	$(1,074,176)	$305,794	$245,906

4. Accrued Leave

Effective April 1, 2006, government changed its policy with respect to ownership and responsibility for vacation and leave entitlement liability. The prior year's accrued leave liability of $597,561, previously expensed over the years, is now centrally owned and controlled by government. As of April 1, 2006 the Office is responsible for current year leave expense funded from its appropriation. As at March 31, 2007, the Office's current leave expense for vacation and other leave entitlements due to our employees as at March 31, 2007 is $136,497 and is included in salaries expense. Benefits at the effective rate of 24.63% are also applied to this amount and included in employee benefits.

5. Voted, Unused and Used Appropriation

The Office receives approval from the Legislative Assembly to spend funds through an appropriation that includes two components – operating and capital. Any unused appropriation of both lapse at the fiscal year-end.

	2007		2006	
	Operating	Capital	Operating	Capital
Appropriation (Vote 2)	$ 8,565,000	$ 200,000	$7,670,000	$200,000
Fee-for-service recoveries	2,440,603	–	2,587,993	–
Other amounts	–	–	274,664	–
Total appropriation available	11,005,603	200,000	10,532,657	200,000
Total operating expenses	(10,713,826)		(10,259,378)	
Capital acquisitions	–	(182,020)	–	(118,613)
Unused appropriation	$ 291,777	$ 17,980	$ 273,279	$ 81,387
Net appropriation used	$ 8,273,223	$ 182,020	$7,671,385	$118,613

The net appropriation used is total operating expenses less fee-for-service recoveries.

6. Employee Benefits

The Office participates in the Government of BC's payroll and benefits programs and contributes through the government's payroll system for specific severance benefits as provided for under terms of employment. Government charges the Office for the costs of these and other employee benefits expressed as a percentage of salaries. The effective rate for the year ended March 31, 2007 was 24.63% (24.52% for the year ended March 31, 2006). The charge includes amounts for employee benefits programs, employer pension plan contributions (Note 7), employer portions of statutory remittances, payroll systems charges, and centrally funded vacation and retirement liabilities. Employee benefits also include maternity and parental leaves, car allowance and relocation allowance for which the benefit rate is not applied.

7. Pension Benefits

The Office and all eligible employees contribute to the Public Service Pension Plan, a multi-employer, defined benefit, and joint trusteeship plan, established for certain British Columbia public service employees. The British Columbia Pension Corporation administers the plan, including payments of pension benefits to eligible employees. A board of trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of assets and administration of benefits.

The plan is contributory, and its basic benefits are based on years of service and average earnings at retirement. Under joint trusteeship, the risks and rewards associated with the Plan's unfunded liability or surplus is shared between the employers and the plan members and will be reflected in their future contributions.

Every three years an actuarial valuation is performed to assess the financial position of the pension plan and the adequacy of the funding. The latest actuarial valuation as at March 31, 2005 reported a deficiency of $767 million (2002: surplus of $546 million). As a result, an increase of contribution rates of 1.88% for plan members and employers was introduced effective April 1, 2006, increasing the range of contribution rates to 8.63-10.13% of pensionable salaries. The next actuarial valuation is scheduled for March 31, 2008.

8. Commitments

The Office leases two photocopiers under separate agreements which expire in September 2007 and August 2008. Future minimum payments under the terms of the leases as of March 31, 2007 are as follows:

Fiscal Year	Commitment
2007/08	$6,372
2008/09	1,880
Total	$8,252

The Office has an accommodation agreement with the Ministry of Labour and Citizen's Services for occupancy of the space at 8 Bastion Square. The agreement requires that six months notice be given should the Office choose to vacate. The rental payment commitment for six months is $279,402.

9. Net Asset Balance

The net asset balance represents capital assets and prepaid expenses that have not yet been funded through appropriations.

10. Related Party Transactions

The Office is related as a result of common ownership to all Government of British Columbia ministries and other public sector entities. The Office enters into transactions with these organizations in the normal course of business and on normal trade terms.

11. Financial Instruments

The fair value of Due to/from the Consolidated Revenue Fund, receivables and payables approximates their respective book values due to their short term to maturity.

12. Comparative Figures

Certain 2006 figures have been reclassified to conform to the 2007 presentation.

APPENDIX A

Summary of our Reports completed in 2006/2007

Summary of our Reports completed in 2006/2007

Report 1 - April 2006

Strengthening Public Accountability: A Journey on a Road that Never Ends

Report 2 - September 2006

The 2010 Olympic and Paralympic Winter Games: Review of Estimates Related to the Province's Commitments

Report 3 - November 2006

Audit of Treaty Negotiations in British Columbia: An Assessment of the Effectiveness of British Columbia's Management and Administrative Processes

Report 4 - December 2006

Province of British Columbia Audit Committees: Doing the Right Things

Report 5 - December 2006

Audit of Government's Corporate Accounting System: Part 2

Report 6 - December 2006

Monitoring Government's Finance Province of British Columbia

Report 7 - December 2006

Government's Post-secondary Expansion — 25,000 Seats by 2010

Report 8 - December 2006

Changing Course — A New Direction for British Columbia's Coastal Ferry System: A Review of the Transformation of BC Ferries

Appendix A

Report 9 - January 2007

Seeking Best Practices in Financial Reporting: Report on the Province's 2005/06 Public Accounts

Report 10 - February 2007

Follow-up of 2004/2005 Report 2: In Sickness and in Health: Healthy Workplaces for British Columbia's Health Care Workers

Report 11 - March 2007

Infection Control Needs Care and Attention: The Provincial Overview

Report 12 - March 2007

Switching Tracks: A Review of the BC Rail Investment Partnership

This report and others are available on our website at:
http://www.bcauditor.com